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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

ON

H.R. 5177

AN ACT MAKING APPROPRIATIONS FOR AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1987, AND FOR OTHER PURPOSES

PART 2 (Pages 1-634)

DEPARTMENT OF AGRICULTURE
FOOD AND DRUG ADMINISTRATION
COMMODITY FUTURES TRADING COMMISSION
GENERAL ACCOUNTING OFFICE

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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

TUESDAY, APRIL 15, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:40 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Andrews, Mattingly, Specter, Burdick, Chiles, Kasten, and Harkin.

DEPARTMENT OF AGRICULTURE

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

STATEMENTS OF:

- **ALAN TRACY, ACTING DEPUTY ASSISTANT SECRETARY FOR MARKETING AND INSPECTION SERVICES, DEPARTMENT OF AGRICULTURE**
- **BERT W. HAWKINS, ADMINISTRATOR, ANIMAL AND PLANT HEALTH INSPECTION SERVICE**
- **DONALD L. HOUSTON, ADMINISTRATOR, FOOD SAFETY AND INSPECTION SERVICE**
- **JAMES C. HANDLEY, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE**

OPENING REMARKS

Senator COCHRAN. The subcommittee will please come to order.

This morning our subcommittee will continue its review of the budget request submitted to the Congress by the President for fiscal year 1987, as it relates to the programs and activities of the Department of Agriculture.

This morning we will focus on the budget request for the Animal and Plant Health Inspection Service, the Food Safety and Inspection Service, and the Agricultural Marketing Service.

APHIS endeavors to protect the Nation's animal and plant resources from economically dangerous pests and diseases. The funding would be reduced in this budget request by about $50 million under levels for this fiscal year.

Programs like animal welfare, imported fire ant, noxious weeds, pseudorabies, and witchweed are targeted for elimination, and user fees would be imposed for such services as lab tests and the monitoring of imports and exports, if the President's request is supported in the Congress.

The budget also proposes that the work of the Food Safety and Inspection Service, which is responsible for inspecting and assuring the safety of all meat and poultry products, be funded entirely by user fees beginning in the next fiscal year.

User fees also will be established or expanded for programs under the Agricultural Marketing Service, Packers and Stockyards Administration, Federal Grain Inspection Service, and the Agricultural Cooperative Service. All of these agencies come under the jurisdiction of the Assistant Secretary for Marketing and Inspection Services.

INTRODUCTION OF MR. TRACY

We are glad to have with us today Mr. Alan Tracy, who is serving as Acting Deputy Assistant Secretary for Marketing and Inspection Services. We know you have colleagues here representing the various agencies whose budgets are under review today.

We have prepared statements from all of you, and we appreciate very much your cooperating with us in that way in providing these statements to the committee.

They will be included in the record in full.

We would encourage you to make such comments as you see fit, trying to highlight the more important parts of your testimony, so that we will have an opportunity for questions and discussion of the proposal before the committee.

Let me ask Secretary Tracy to proceed at this point and make any comments you wish. Please also introduce those who are with you.

We welcome you to the committee.

Mr. TRACY. Thank you very much, Mr. Chairman.

I have had the pleasure of appearing before you on a number of other times in a number of other capacities. This is the first time in the Marketing and Inspection Services area. It is a very large part of the Department, about 24,000 employees. We have seven agencies, as you pointed out. We have three of them represented here this morning. It covers most of the regulatory functions of the Department, and I think provides a genuine service to U.S. agriculture.

INTRODUCTION OF WITNESSES

I would like to introduce the entire head table first, and then we will let each of the administrators summarize their comments, if you wish.

On my far right is Robert Sherman, who is with the Department's budget office. Next is Bert Hawkins, the Administrator of the Animal and Plant Health Inspection Service.

On my left is Jim Handley, the Administrator of the Agricultural Marketing Service. On my far left is Dr. Houston, the Administrator of the Food Safety and Inspection Service.

I would like to launch right in and let Mr. Hawkins make a few brief remarks.

STATEMENT OF BERT W. HAWKINS

Mr. HAWKINS. Thank you, Mr. Tracy.

Mr. Chairman, I am delighted again to have this opportunity to appear before you. Many things have changed since I last appeared here, especially in the budget area. We have had Gramm-Rudman-Hollings and other changes that have played a significant role, as you are very much aware.

With me this morning are Dr. John K. Atwell, Deputy Administrator for Veterinary Services; Mr. James O. Lee, Deputy Administrator for Animal Damage Control; Mr. William F. Helms, Associate Deputy Administrator for Plant Protection and Quarantine; Mr. Larry B. Slagle, Deputy Administrator for Management and Budget; and Mr. William S. Wallace, Acting Director of the Budget and Accounting Division.

BUDGET CHALLENGE

With these challenges that Gramm-Rudman-Hollings and other things have introduced into the budgeting process, we face uncertainty, but we are determined to fulfill our basic mission. During the 3 years that I have been Administrator of APHIS, we have placed high priority on those functions where the Federal Government has the primary, and sometimes the only, responsibility. These are the areas of surveillance, enforcement, and reaction to exotic pests or diseases which may enter the United States. Our concern is with the damaging effects that across-the-board cuts could have on those functions that are predominantly Federal in nature.

GRASSHOPPERS

Briefly, I would like to share with you some of APHIS' major accomplishments last year. The rangeland grasshopper program was one of our major activities. We treated 14 million acres over a 13-State area, negotiating 87 separate contracts. We did all of this within 10 weeks.

Some media people in the West where we were operating said that Secretary Weinberger might do well if he could mobilize as rapidly and do as efficient a job as APHIS did treating grasshoppers. I mention that because sometimes we have to take credit where we can get it in a regulatory agency.

BRUCELLOSIS AND SCREWWORM

Brucellosis, as you are well aware, is another important function for APHIS. I am glad to report that we continued to make significant progress. We have met all of the goals that were given to us by Congress. In fact, we have exceeded most goals and today have a total of 23 free States and 21 class A States. As I reported to you earlier in the year, we are proud that Mississippi, your own State, was the first State to move out of class C into class B status. We see a good chance that it will move into class A status very rapidly. So, we are on the road to success in brucellosis eradication.

In screwworm, our third largest program, we continued to maintain the sterile fly barrier, the program's original goal as directed by Congress. We had one break in that barrier this year, about 150 miles south of the Texas border, which took 6 weeks to control. That outbreak demonstrates that we must remain vigilant in Northern Mexico as long as we maintain the barrier at the Isthmus of Tehuantepec.

Annually, some 600,000 cattle come down from the northern region of the Yucatan and out of Guatemala and traverse our quarantine stations in route to Northern Mexico. This puts extreme pressure on our stations, but those cattle present a threat that will continue to exist as long as we are holding the barrier at the Isthmus of Tehuantepec.

We have completed the feasibility study that we were asked to prepare by Congress. The study indicated that expansion of the eradicated area is a viable option when Congress decides that it is the right time to move on into Central America.

MEDFLY AND AFRICANIZED BEE

We quickly reacted to Medfly and Africanized bee outbreaks last year. We had a small outbreak of Medfly in Florida that we quickly eradicated through the sterile fly technique, proving that method as a viable eradication option.

In the Africanized bee outbreak, we worked closely with the State of California in delimiting the infestation and feel pleased with that operation.

PORT OF ENTRY

Our port of entry activity does not receive high visibility, but it is our top-priority program. It prevents the introduction of exotic pests and diseases, one of our primary Federal functions.

APHIS inspectors found thousands of prohibited articles which could have easily spread pests and diseases. These interceptions show us that we must continually update our activities in this area.

For example, we are now conducting a new project at the Miami International Airport, examining travelers' luggage using high-Z rays. This tool identifies prohibited fruits and vegetables much more definitively than previous methods.

ANIMAL DAMAGE CONTROL

Last year, Congress provided for the transfer of the Animal Damage Control Program to APHIS. I am pleased that we met our target of April 1 to accomplish this transfer. All employees are now with us and we are managing the program.

CITRUS CANKER

We worked hard on citrus canker last year, and we believe it is at a point where the State and industry can take over. APHIS advisors are still in the State of Florida, and we hope that we will come to a successful conclusion of this program.

AVIAN INFLUENZA

Avian influenza, a serious poultry disease here in the East, has affected six States. I feel that it is under control now. The States and industry are certainly to be congratulated for their cooperative program and dedication to doing this without too much assistance from us.

GYPSY MOTH

This month we will begin the second year of a gypsy moth program with the State of Oregon. Hopefully, we will make enough progress this year so that Oregon will be able to handle any remaining infestation next spring.

CLOSING REMARKS

Mr. Chairman, I would like to conclude by noting that our 1987 budget recognizes that we do have tough choices to make, and that we are not able to conduct some of the programs that we have in the past. But it does preserve full funding for our high-priority items of surveillance, enforcement, and quick reaction to exotic pests and diseases.

We pledge to do our best to live within the budget that we have presented to you. As part of this effort, we are working very closely with our budget staff to save every possible dollar in administrative costs.

I appreciate very much, Mr. Chairman, the opportunity to appear before you and your committee today.

PREPARED STATEMENT

Senator Cochran. Thank you, Mr. Hawkins, for summarizing your statement and for your description of some of the activities of this important agency. We have your complete statement and it will be placed in the record.

[The statement follows:]

STATEMENT OF BERT W. HAWKINS

Mr. Chairman, members of the Committee, it gives me great pleasure to again share with you the continuing record of accomplishment we have compiled in the Animal and Plant Health Inspection Service (APHIS). With your consistent support and cooperation from the States and industry, the men and women of APHIS have provided an outstanding and invaluable service--protecting the animal and plant resources that allow America to be the breadbasket of the world. Protecting American agriculture is our creed. Today, I will discuss our Fiscal Year (FY) 1987 budget, as well as report on our recent achievements. I have with me our Deputy Administrators for Veterinary Services--Dr. John K. Atwell, for Animal Damage Control--Mr. James O. Lee, Jr., and for Management and Budget--Larry B. Slagle; the Associate Deputy Administrator for Plant Protection and Quarantine--Mr. William F. Helms; and the Acting Director of the Budget and Accounting Division--Mr. William S. Wallace. They are prepared to provide any technical information you may need.

Reality of Budget Reduction

During my previous appearances before you I spoke of the challenge that faces APHIS and all Federal agencies, providing vital services while holding the line on spending. That challenge is now the law. Gramm-Rudman-Hollings makes the reality of deficit and budget reduction impossible to escape. Business as usual will not occur. If there was any doubt about that, it certainly was removed when over $13 million in FY 1986 APHIS funds were sequestered. For FY 1986, and the foreseeable future, the message is clear-we cannot do everything anymore.

Still, there is much we cannot afford not to do. Our most basic functions of surveillance for pests and diseases, both at our borders and internally; enforcement of regulations which keep problems from spreading; and quick reaction to outbreaks of exotic threats which slip into our country; must be maintained at full strength. Cutting the APHIS budget across-the-board unfortunately does not equally distribute the impact. Our basic functions, which provide the current high degree of agricultural health protection we enjoy, suffer disproportionately because we have no real choice but to reduce staffing from the levels needed to assure proper coverage. Consequently, across-the-board cuts reduce our ability to prevent pest and disease problems or at least deal with them at their earliest and least costly stage.

Our proposed FY 1987 budget recognizes that we can no longer try to do everything, but must maintain vital functions. Simply, the budget is our statement of priorities. We are requesting adequate funding to fully carry out the basic Federal role in agricultural health protection. At the same time, we are proposing to reduce or eliminate our participation in activities which do not clearly fall into the Federal sector. The budget faces the reality of deficit reduction.

Before going into specifics on the FY 1987 budget, I would like to take a few minutes to report to you on some outstanding successes we achieved in FY 1985, some new threats we have faced, and some continuing problem areas.

Program Achievements in FY 1985

One of our most difficult tasks last year was dealing with a massive grasshopper outbreak. We successfully accomplished that task. The grasshopper is a tough pest to deal with. Although we can make reasonable estimates of the potential for high populations, we do not know just how big a problem we have until the weather and season take their course and it is almost time to begin work. In 1985, Mother Nature was exceedingly kind to the grasshopper and left us with record highs in infested acreage. Compounding the problem was that Federal lands, where we bear 100 percent of program costs, were more severely infested than private and State lands, where we can share costs. Also, control operations have to coincide with the proper stage of grasshopper development, providing a narrow window of opportunity to achieve successful control. Given all of these problems, we treated nearly 14 million acres--twice as many as ever before--within about 2 months. This involved negotiating 87 different contracts for pesticides and aerial application in 13 States, working with States and ranchers, and supervising all program operations. I am proud of the way our people handled this extraordinary challenge, and I thank the Committee for its assistance in assuring our success.

A though not quite as dramatic, significant progress was made in the battle against brucellosis. Following the direction given by Congress last year, we reduced the brucellosis infection rate to .26 percent, down from .29 percent in FY 1984. There are now 43 States and possessions in either "Free" or "Class A" status, six more than in FY 1984. We are on the road to eradication and an eventual large savings in program costs if we maintain our plan for an orderly phasedown with continued strong efforts in high incidence States. The phasedown calls for having all States in Free or Class A status by FY 1991. We hope to achieve this by quickly making progress in the high incidence States, using depopulation of heavily infected herds in accordance with State by State eradication plans.

Two high visibility pest introductions were handled successfully in FY 1985. Working closely with Florida, we quickly eradicated another potentially costly Mediterranean fruit fly outbreak before it spread. Also, I am sure that we all are breathing a bit easier with the results of the Africanized bee program. We worked closely with California, conducting quarantine, surveillance, and laboratory activities to check the spread of this unique threat. Happily, it appears that the Africanized bees which did spread were absorbed into the native bee population and lost their aggressive, threatening nature.

Perhaps our biggest success story is the one we never hear too much about. I am referring to the hundreds of thousands of interceptions of unauthorized materials our port-of-entry inspectors make each year. Any of those materials, such as a ham from a foot-and-mouth disease affected country or an orange from a Medfly-infested country, could have spread pests and diseases throughout our agricultural marketing system. By combining modern techniques, such as X-ray machines, with an assist from man's best friend - beagles sniffing baggage for meats and other products - our inspectors saved countless millions in potential losses and control costs.

While our surveillance programs have continued to catch most major pests and diseases, we are concerned with the unusually high number of relatively minor outbreaks during the past few years. We have handled such problems as vesicular stomatitis, Oriental fruit fly, apple ermine moth, white garden snails, and black parlatoria scale before they could cause widespread damage. This reinforces the need to maintain our highest possible level of surveillance and enforcement.

The rapidly expanding field of biotechnology is a new challenge to APHIS. Using existing resources, we established a biotechnology and environmental assessment staff. Such a staff would be needed to regulate and facilitate the introduction of genetically engineered organisms into American agriculture.

Citrus Canker

Citrus canker continues to cause us great concern. We have now destroyed 18 million plants in an effort to eradicate the disease. Our most recent find was on December 30, 1985. As I reported last year, the disease has been unpredictable because it is a strain of citrus canker never before found in the United States. Fortunately, we have been successful in our most immediate goal of keeping citrus canker out of mature, fruit producing trees. However, eradication will not be assured until intensive surveillance fails to discover the disease for at least 2 years after the last find. We are hopeful that the work we have done so far will be followed by a State and industry program that will prove successful in finally achieving eradication.

FY 1987 Budget Analysis

Having looked at our recent activities, I would now like to turn to the FY 1987 budget. In preparing our budget, we conducted both an Agencywide and a program by program analysis. On an Agencywide basis, we determined that our most important priority was to preserve the highest possible level for our functions which support our basic mission. This includes fulfilling the necessary Federal roles of surveillance and enforcement and maintaining the capability to respond to emergencies. To do this, we have to maintain a staff of highly skilled and trained professionals available for emergency duty at a moment's notice. Also from an Agencywide perspective, we determined that we must achieve every possible administrative efficiency. Toward that goal, I commissioned an independent study of how we staff our programs to eliminate any unnecessary positions. We took a particularly hard look at all administrative positions. Some changes have already been made in accordance with the study's recommendations.

Looking at APHIS on a program by program basis, we categorized our activities in three general types. First were those activities which clearly required a strong or total Federal presence. These activities should receive our highest priority, and our funding request reflects that.

The second category included most of our traditional ongoing control and eradication programs. This category essentially is the discretionary part of the APHIS budget. For programs in this category, we attempted to match limited resources with the greatest need, taking into account the possibility of greater State or industry involvement and the national threat posed by each pest or disease.

The third category included those activities for which a clear beneficiary could be identified. In those cases, we would propose to continue performing services, but to recover the costs from the identified beneficiaries.

With that background, I would like to take a closer look at the specifics of the FY 1987 budget. Under current law, we are requesting $253,156,000 for our "Salaries and Expenses" appropriation and $2,347,000 for our "Building and Facilities" appropriation. This represents a decrease of $61,232,000 from the amount Congress appropriated and a $47,713,000 decrease from our FY 1986 funding after the Gramm-Rudman-Hollings sequestration. Also, we have proposed legislation to recover $20,856,000 in user fees, further reducing the level of Federal outlays.

Basic Functions

The program breakout of our total request closely follows the general framework I have described. For our basic function programs--agricultural quarantine inspection, international programs, pest detection, animal disease detection, and animal health compliance and enforcement--we are requesting the same operating level of funds as Congress provided in the original FY 1986 appropriation. Compared to funding now available in FY 1986, this is a $3,014,000 increase, restoring for FY 1987 about 90 percent of the funds sequestered in FY 1986 and allowing these vital programs to maintain an adequate level of agricultural protection. The other 10 percent will be absorbed through management initiatives, such as contracting certain services to the private sector. These programs are our top priorities and it is crucial that they not be reduced if we are to fulfill our mission.

Traditional Programs

The tough choices come in our second major category of programs, those where greater State and industry support is possible or continued Federal involvement is of lower priority. We are requesting a decrease of $50,805,000 from the FY 1986 funding now available for this category of programs, thus allowing the increase for our basic functions while still reducing overall spending. Although individual program situations may differ, there are a few general guidelines we applied in determining funding levels. For example, when a pest or disease is localized, under control, and State or industry action could be sufficient, we proposed to either eliminate or reduce Federal spending. This guideline was applied to the golden nematode, noxious weeds, pink bollworm, and witchweed programs.

A second guideline we used was to reduce funding to the extent program progress allowed. This meant maintaining a solid base to assure continued success, while still achieving some cost savings. Programs of this type include our two largest eradication programs, brucellosis and screwworm. In both cases we have had great success, but substantial funding is still necessary to maintain our current progress and move further ahead. A similar situation, although on a much smaller scale, exists in the boll weevil program.

A third guideline was to simply end APHIS funding for programs where Federal funding is of relatively low priority. In the cases of imported fire ant and pseudorabies, we believe that we have done just about all we are capable of doing. Any further program actions would require presently unavailable new technology to deal with fire ants or a greater threat than now exists due to pseudorabies. Also, we propose to eliminate funding for the animal welfare and horse protection programs. These activities do not compete well with the priorities of agricultural health protection given the reality of budget reduction.

The final reduction I would address is for grasshopper. Congressional action in the 1985 Farm Bill and the ability to carry over the funds made available for grasshopper control in FY 1986 precludes the need for new appropriations in FY 1987. Therefore, we propose no new funds for grasshopper control, although we are requesting funds for our surveillance and technical assistance activities.

User Fees

In our third major category of programs, those where user fees would be appropriate, we are proposing to recover $20,856,000 through the enactment of legislation to allow us to charge for certain services. This includes all of the activities conducted by the veterinary biologics and import-export programs, as well as certain functions in the agricultural quarantine inspection and veterinary diagnostics programs. We believe that we can identify clear beneficiaries of our services in all cases and thus establish fair and proper fees.

Mr. Chairman, I would like to summarize my remarks by saying that we recognize that budget reductions are necessary. Given that reality, we want to do whatever we can to continue our record of accomplishment in APHIS within available funding. To fulfill our mission, it is crucial that we make our decisions based on priorities. This budget was determined by setting our priorities - the basic APHIS functions. I understand that reducing spending for some of our traditional programs will be difficult. While we can provide technical leadership in all phases of agricultural health protection, others will have to do more. We stand ready to do our part.

That concludes my remarks. My colleagues and I look forward to working with you during the difficult times ahead. We would be glad to respond to any questions you may have.

BIOGRAPHICAL SKETCH

JAMES W. GLOSSER

Dr. James W. Glosser was appointed Associate Administrator of the U.S. Department of Agriculture's Animal and Plant Health Inspection Service [APHIS], on March 31, 1985. Prior to that time he had served as Assistant to the Administrator for APHIS since December 27, 1983.

Dr. Glosser has an outstanding record of service in the fields of animal and public health. For 6 years, prior to joining USDA, he was Administrator of Montana's Animal Health Division. He has also served as State Veterinarian, State Public Health Veterinarian, and in other capacities for the State of Montana.

From time to time, Dr. Glosser has served on special projects for the National Cattlemen's Association and USDA. He was a veterinary epidemiologist with the U.S. Public Health Service, Center for Disease Control in Atlanta, GA, from 1966 to 1973.

A native of Helena, MT, Dr. Glosser earned his Doctor of Veterinary Medicine degree at Washington State University, and a Masters of Public Health degree at the University of Minnesota.

Dr. Glosser currently resides in Alexandria, VA, with his wife, Julie. The Glossers have three grown children—two sons and a daughter.

FOOD SAFETY AND INSPECTION SERVICE

Senator COCHRAN. I think before we get into specific questions of the budget request for the Animal and Plant Health Inspection Service, we will go ahead and hear from program administrators of the Food Safety and Inspection Service and the Agricultural Marketing Service, and then we will have an opportunity to discuss all of these programs at the same time.

Secretary Tracy, you may proceed.

Mr. TRACY. Dr. Don Houston, the Administrator of the Food Safety and Inspection Service.

Senator COCHRAN. Welcome, Dr. Houston.

Dr. HOUSTON. Thank you, Mr. Chairman.

I am pleased to appear before the committee today to discuss the budget of the Food Safety and Inspection Service for fiscal year 1987.

In line with the administration's philosophy that those directly benefiting from a service should pay for it, we are committed to the course of recovering from the meat and poultry industry the full cost of the inspection service we provide. We will soon submit legislation to the Congress granting the Department authority to collect user fees for meat and poultry inspection.

However, at this time, I would like to cover some of the other efforts we are making to modernize our program, relieve current budgetary pressures, and serve the public. As you know, our mission is performed in more than 7,000 meat and poultry plants across the country, in every State and territory. That is where most of our employees are. That is where most of our dollars go.

While the men and women in our inspection force usually receive no public notice, they are the regulatory system at work.

The inspectors do not stand alone. When they take their stations each day on the slaughter and processing lines, they are backed up by headquarters, laboratory, and other field staffs whose activities are also essential to the Agency's overall mission of protecting the public. They detect the presence of residues and other adulterants in the meat and poultry supply. Last year 248,000 samples were tested. They oversee product recalls and other actions to prevent contaminated products from reaching consumers and to minimize losses to the industry.

They investigate any illegal activities in the plants and enforce inspection laws throughout food distribution channels.

BUDGET REDUCTIONS

We are proud of our role in helping to make the Nation's food supply the safest in the world. This year's budget cuts have severely strained our resources so that extraordinary efforts will be required if we are to continue to provide industry with needed services, and consumers with a safe and wholesome meat and poultry supply.

To put the fiscal year 1987 budget in perspective, it is necessary to look at our current situation and what it means in terms of people and services. For fiscal year 1985, our appropriation was $364.6 million. For fiscal year 1986, our appropriation level was slightly below that at $361.8 million after a transfer of $0.3 million to departmental management.

Gramm-Rudman-Hollings will result in a further reduction of $15.6 million. However, through action detailed below, the agency has been able to realize $6.5 million in additional savings. Also, on March 4, the President approved the release of $5.7 million in funds already appropriated for the Agency, but held in abeyance by Congress pending a formal request from the administration.

We are doing everything possible to absorb this reduction in a way that will least disrupt the industry and least harm our employees. First, we have severely restricted travel, training, and laboratory contracts.

Second, we are continuing the full hiring freeze that began in November. At the start of the fiscal year, we had 9,230 full-time employees, including an in-plant inspection force of 7,541. We expect that, by October, we will be down to 8,630 full-time employees, with an in-plant force of 7,020.

I am going to come back and clarify that in a moment, Mr. Chairman, because I have some up-to-date information on those particular cuts.

At the start of the fiscal year, we also had nearly 1,200 temporary and part-time employees, but we are now drastically curtailing their use, mainly through a new streamlined inspection system that reduces by more than 400 the number of poultry inspection positions. But these measures, stringent as they are, are simply not enough. They will account for only $6.5 million of the $15.6 million reduction mandated for this year by Gramm-Rudman-Hollings.

Even with the recently released $5.7 million, we must cut our spending by an additional $3.4 million. To achieve this, we are forced to turn to cutting funds allocated for salaries. Therefore, we are proposing a 3-day furlough for the entire Agency. To avoid disrupting the Agency work schedules and industry production, we intend to use the three remaining Federal holidays in the fiscal year as the furlough days.

HIRING FREEZE

Mr. Chairman, before I go to the fiscal 1987 budget, let me go back and reference the remarks I made regarding the full hiring freeze.

Late yesterday, we had an opportunity to look at accounting data for the year, through the month of March, and we are finding that many of the cost-saving measures that we have put in place throughout the first half of the fiscal year are beginning to bear fruit; and, as a result, we have accumulated a small surplus. We are going to use that to do some hiring for the remainder of the year for the attrition that will occur between now and the end of the fiscal year. That will keep our situation from becoming worse throughout that remainder of time.

Also, we will be able to do some hiring to fill positions as a result of new plants coming on stream or expansions requiring second shifts. We currently have 24 plants asking for additional inspectors because of these reasons, and it is our intention at this point to begin hiring to fill those additional needs.

I want to emphasize, however, that we will not be able to lift our furlough on the 3 days that I mentioned earlier, and we will not be able to fill any of the vacancies that were created during the first half of the fiscal year. We have some vacant positions that are now being filled by doubling and tripling of employees. We wish we did not have to do that, but there is no way that we can meet those needs under our current budgetary picture.

BUDGET REQUEST

With that analysis of where we stand this year, let me now turn to fiscal year 1987. Our current law budget request for next year is $365.8 million, or slightly more than this year's level before the Gramm-Rudman-Hollings cut.

The fiscal year 1987 request allots $210.6 million for slaughter inspection, $89.8 million for processing inspection, $7.8 million for import/export inspection, $21.2 million for laboratory services, and $36.4 million for grants to States.

Mr. Chairman, the remainder of my testimony covers some modernization activities of the Agency, as well as our program for user fees. I think at this point I can stop and ask that our study on implementing the user fee system within FSIS be made part of the record.

Thank you, Mr. Chairman.

PREPARED STATEMENT

Senator COCHRAN. Thank you for your excellent statement. We appreciate having the benefit of it, Your complete statement and the study to which you referred will be placed in the record in full.

[The statement and study follow:]

STATEMENT OF DONALD L. HOUSTON

Mr. Chairman, I am pleased to appear before this Committee to discuss the budget of the Food Safety and Inspection Service (FSIS) for fiscal year 1987. In line with the Administration's philosophy that those directly benefiting from a service should pay for it, we are committed to the course of recovering from the meat and poultry industry the full cost of the inspection service we provide. We will soon submit draft legislation granting the Department authority to collect user fees for Meat and Poultry Inspection.

Before I explain our user fee proposal in detail, I would like to cover some of the other efforts we are making to modernize our program, relieve current budgetary pressures, and serve the public. As you know, our mission is performed in more than 7,000 meat and poultry plants across the country, in every State and territory. That is where most of our employees are; that is where most of our dollars go. While the men and women in our inspection force usually receive no public notice, they are the regulatory system at work.

Last year our inspectors examined more than 120.5 million head of livestock and 4.8 billion birds. They inspected more than 66.4 billion pounds of processed red meat product and 53.1 billion pounds of processed poultry product.

To assure a safe and wholesome meat and poultry supply, they condemned 377,000 red meat carcasses and 47.3 million poultry carcasses that were diseased, contaminated, or otherwise unsafe or unfit for human consumption. They also condemned more than 782 million pounds of processed product and refused entry to nearly 22 million pounds of imported product.

But the inspectors do not stand alone. When they take their stations each day on the slaughter and processing lines they are backed up by headquarters, laboratory, and other field staffs whose activities are also essential to the agency's overall mission of protecting the public. For example, members of these staffs are responsible for developing and testing improvements in the inspection system, including standardized procedures that foster industry productivity.

They detect the presence of residues and other adulterants in the meat and poultry supply. Last year, 248,000 samples were tested. They oversee product recalls and other actions to prevent contaminated product from reaching consumers and to minimize losses to the industry. They investigate any illegal activities in the plants and enforce inspection laws throughout food distribution channels. They review product labels for accuracy. They educate consumers on the safe handling of meat and poultry.

We in FSIS are proud of our role in helping make the nation's food supply the safest in the world. But this year's budget cuts have severely strained our resources so that extraordinary effort will be required if we are to continue to provide industry with needed services and consumers with a safe and wholesome meat and poultry supply.

To put the FY 1987 budget in perspective, it is necessary to look at our current situation and what it means in terms of people and services. In fiscal year 1985, our appropriation was $364.6 million. For fiscal year 1986, our appropriation level was slightly below that, at $361.8 million after a transfer of $.3 million to Departmental management. Gramm-Rudman-Hollings will result in in a further reduction of $15.6 million. However, through action detailed below, FSIS has been able to realize $6.5 million in additional savings. Also, on March 4 the President approved the release of $5.7 million in funds already appropriated for FSIS but held in abeyance by Congress pending a formal request from the Administration.

That leaves us with an operating budget of $351.9 million an effective budget reduction of $3.4 million for the year after all the savings are included. We are doing everything possible to absorb this reduction in a way that will least disrupt the industry and least harm our employees.

We have already taken a number of steps to trim our spending:

First, we have severely restricted travel, training, and laboratory contracts.

Second, we are continuing the full hiring freeze that began in November. At the start of the fiscal year we had 9,230 full-time employees, including an in-plant inspection force of 7,541. We expect that by October we will be down to 8,630 full-time employees, with an in-plant force of 7,020.

At the start of the fiscal year we also had nearly 1,100 temporary and part-time employees, but we are now drastically curtailing their use, mainly through a new streamlined inspection system that reduces by more than 400 the number of poultry inspection positions.

But these measures, stringent as they are, are simply not enough. They will account for only $6.5 million of the $15.6 million reduction mandated for this year by Gramm-Rudman-Hollings. Even with the recently released $5.7 million, we must cut our spending by an additional $3.4 million. To achieve this, we are forced to turn to cutting funds allocated for salaries. While we would prefer to do otherwise, the fact is that FSIS is a very labor-intensive agency, with about 85 percent of the budget going for salaries and benefits.

Therefore, we are proposing a three-day furlough for the entire Agency. To avoid disrupting FSIS work schedules and industry production, we intend to use the three remaining Federal holidays in the fiscal year as the furlough days.

In my more optimistic moments, I like to think it is possible to carry out these cost-cutting measures while maintaining the same high level of service we have in the past -- with an inspection force that is properly trained, properly supervised, and properly supported. However, our task is made even more difficult by the fact that at the same time our budget is shrinking, the meat and poultry industry is expanding.

For several years we have sought to streamline and modernize our program to keep pace with industry's growth. Given our budget situation now, the need to alter our traditional ways of operating is more urgent than ever. We have to accomplish more with less -- without sacrificing either public protection or the overall integrity of inspection.

With that analysis of where we stand this year, let me turn now to FY 1987. Our current-law budget request for next year is $365.8 million, or slightly more than this year's level before the Gramm-Rudman-Hollings cut. The FY 1987 request allots $210.6 million for slaughter inspection, $89.8 million for processing inspection, $7.6 million for import-export inspection, $21.2 million for laboratory services, and $36.4 million for grants to states.

MODERNIZING INSPECTION

In keeping the FY 1987 budget as lean as possible, we must continue to streamline and modernize our inspection system. Urging us on is a report from the National Academy of Sciences that we commissioned as part of our five-point plan to strengthen meat and poultry inspection. We wanted an outside body of scientists to take a long, hard, impartial look at our program, and that is exactly what the Academy did.

Its report, delivered last July, endorsed the direction we have taken but pulled no punches in calling for us to go still further. The Academy's recommendations will serve as a blueprint as we proceed with our efforts to streamline and modernize our program.

Supplying still more motivation for change is the industry expansion I referred to earlier. This is particularly true in the poultry industry, where increased consumer demand is prompting plants to add lines and shifts -- and request additional inspection.

New inspection systems

Three new poultry inspection systems are designed to help us deal with the situation. Two permit efficient and effective inspection at relatively high linespeeds. This was achieved by shifting responsibility for trimming decisions to the plants, with FSIS then verifying that the trimming was done properly.

Some of those same successful concepts have been applied in the new streamlined inspection system I referred to earlier. It is now mandatory in all plants that slaughter young chickens. By reducing from three to two the number of inspectors required to handle a line, it is possible to eliminate 473 positions.

The surplus inspectors with permanent, full-time status will be offered reassignment elsewhere; those with intermittent status will not be retained.

FSIS is also moving to improve inspection procedures in red meat plants. We continue to test applications of quality control concepts in the slaughter and processing inspection of cattle and swine. Also, the streamlined inspection procedures that were begun in high-volume hog plants several years ago have now been extended to all swine slaughter plants.

Food technologist series

But just improving inspection procedures is not enough. FSIS must also keep up with technology by requiring more of its inspection force: expertise in such disciplines as statistics, general food science, microbiology, chemistry. We have announced a plan to phase food technologists into processing inspection over the next 10 years. Budget restrictions, however, will prevent us from implementing our plan this year. If we can, we will in FY 1987. In addition, we want to continue the special training we instituted last year in total quality control inspection of processed products.

Import inspection

In the area of import inspection, the Agency is also introducing changes to increase efficiency. There, too, we must find ways to operate within severe budget and staffing limits, yet not compromise our high standards of consumer protection. These are among the changes we have made or plan to make:

- When product is rejected, we now require that every container be marked "U.S. Refused Entry." This frees our inspectors from the need for continuous physical control of the product, keeps rejected product out of domestic marketing channels, and notifies other countries that the lot was turned away from a U.S. port.

- We will phase out the practice of allowing imported product to bypass inspection at ports of entry, being inspected instead at another location by domestic inspectors. We believe that import inspection requires special expertise and should be performed only by import inspectors, who are stationed at ports of entry. This also increases our efficiency.

- We have reduced monitoring of imported product from plants with the best compliance records because our data showed that closely monitoring their lots was unnecessary and added nothing to consumer protection. It also used resources that could focus instead on product from problem plants.

USING SCIENCE AND TECHNOLOGY

Advances in science and technology constantly present our Agency with challenges and opportunities. When the industry we regulate wants to adopt new techniques, we must be prepared to accept them if the public will benefit. And we ourselves must always seek to expand our knowledge and our capability. We need more residue tests; more and better computer programs; better ways to control bacteria and parasites.

Irradiation

Recently we approved the use of low-dose gamma irradiation in federally inspected plants to control trichina in fresh pork cuts. Although only a small amount of the fresh pork supply is likely to be irradiated in the near future, the technology is there. When the Food and Drug Administration pronounced the process safe, FSIS steered a reasonable and prudent course, carefully considering requirements for facilities, labeling, quality control, and employee safety before granting approval.

Salmonella reduction initiatives

Unfortunately, we do not yet have a satisfactory method for reducing bacterial contamination of meat and poultry. Two years ago, an international symposium on salmonella was held in recognition of the seriousness of the problem worldwide. It concluded that all foods of animal origin are potentially contaminated by salmonella, and that contamination levels cannot soon be expected to change greatly.

Further recognition of the problem comes from the Centers for Disease Control, which reports that the incidence of salmonellosis has almost doubled since 1968. Our own sampling data on meat and poultry contamination indicates that about 37 percent of broilers, 5 percent of ground beef, and 12 percent of pork sausage contain salmonella bacteria.

FSIS has been working on the problem for many years, and salmonella control remains our major research priority. We are looking at procedures such as sanitizing sprays and automatic carcass-washing systems that could be implemented in meat and poultry plants to destroy salmonella.

We are also considering marketplace incentives to encourage industry to adopt the latest salmonella control technology. For example, companies that can reduce salmonella bacteria levels might be allowed to publicize this accomplishment through their labels and advertisements.

Rapid screening advances

One of the greatest technical challenges we face is developing quick, inexpensive, easy-to-use tests that can be run right at the plant to establish the presence or absence of residues. With such methods, problem carcasses can be identified and retained while laboratory confirmation of the findings is awaited. Contaminated meat is prevented from reaching the public, and producers and shippers have an added incentive to be sure animals are residue-free at slaughter.

A few years ago, the Agency introduced a rapid screening test for antibiotics. It was developed for use on carcasses in plants and then adapted for live animals as well. When the test was modified further and used to check for sulfa in very young calves, the violation rate dropped from more than seven percent to less than two percent.

Now, FSIS has developed a new rapid method for sulfa, the Sulfa OnSite Test, or SOS. Field trials showed that it works well for screening groups of hogs at the slaughterhouse, and the Agency has announced plans for a new regulatory program that could include in-plant testing of hogs for sulfa residues. In the meantime, SOS and commercially available kits are proving useful for farm testing of hogs and feed.

CORRECTING PROBLEMS

FSIS, like any other large program, is subject to occasional problems of organization or operation. And the huge meat and poultry industry -- like all other industries -- suffers from the actions of a few careless or irresponsible members. Both situations can damage the confidence of consumers in the country's meat and poultry supply. I would like to describe now our recent efforts to deal with such problems, and also call your attention to legislative remedies we have proposed.

Southern California review

During FY 1985, employee concerns about the integrity of the meat and poultry inspection program in Southern California prompted us to order a large-scale, internal investigation. The review turned up significant weaknesses in the program. The most significant were in the areas of organizational structure, supervision, staffing, and program effectiveness.

FSIS sent a special team to Southern California to correct the problems. It improved the distribution of inspectors' workloads, corrected deficiencies in roast beef operations, improved supervisors' management practices, and recommended that two plants be placed under Intensified Regulatory Enforcement (IRE).

We are now conducting a follow-up review, which began this month. We want to look at the progress that has been made and identify any additional steps that should be taken.

Enforcement measures

FSIS employs the tool known as Intensified Regulatory Enforcement to deal with plants that consistently cannot or will not follow procedures assuring safe and wholesome meat and poultry products. When a plant is assigned IRE status, the Agency develops a specific action plan to bring about improvement.

The program was begun three years ago. Since then, 11 plants have upgraded their operations to a satisfactory level. At the end of 1985, 13 plants were operating under IRE.

In cases where plant officials have been convicted in criminal proceedings, FSIS can also withdraw inspection services. During FY 1985, the Agency took this administrative action against several slaughtering and processing companies, including one in Pennsylvania that sold uninspected meat for human consumption and one in Ohio that refused to destroy adulterated product a USDA inspector had condemned.

We also initiated 1,200 detention actions involving nine million pounds of suspect meat and poultry products and monitored 13 recalls of nearly 700,000 pounds. Another 90,700 pounds were seized in five court actions initiated by the Agency.

Legislative remedies

However, many of the enforcement actions we can take are possible only through a laborious process that often is less than effective in dealing with the more difficult cases. We have long recognized the need for additional enforcement authority. A two-part legislative proposal submitted to Congress last August would increase the Department's authority to withdraw or refuse inspection.

Denying inspection and thus preventing a plant from operating is the most effective sanction we can impose. We must have more authority to use that sanction to protect the public and to assure that no plant is permitted to gain competitive advantage through prohibited practices.

The second part of our legislative proposal would amend the inspection laws to permit varying the intensity of inspection in certain processing plants. It is a change we have sought for several years in response to major advances in processing technology and the need to increase efficiency in the inspection program.

Now, given our challenging budget situation, it is even more essential that we be able to decide how often and how closely each processing plant should be inspected, based on its compliance history and other factors. We believe it is neither necessary nor practical for every such operation to be visited every day by a USDA inspector. We must have the flexibility to allocate our dwindling resources more efficiently and more economically than the laws in their present form permit.

Our legislative package combines into one bill the two similar and complementing proposals that were introduced but not acted on in the last Congress. If enacted, it is expected to yield cumulative savings of $63 million over the next five years. We will actively continue to seek introduction and passage of the bill.

COLLECTING USER FEES

I will return now to the subject of user fees for meat and poultry inspection, another legislative remedy for deficits. User fees were part of the President's budget request last year but were not acted on by Congress.

Within FSIS we have labored for months over a user fee proposal. We considered several different ways of implementing fees and evaluated each with the following three questions in mind:

> Would it fairly allocate the cost of inspection among various segments of the industry?
>
> Could it be administered efficiently?
>
> Would it maintain the Agency's credibility?

Describing our task as a major challenge would be an understatement, but I think we have arrived at a plan that is as fair and efficient as possible, and that will sustain public confidence. Compared with the other options we considered, it provides the easiest method of verifying industry records, it disrupts production and inspection activities least, and it costs least to implement.

With your permission, Mr. Chairman, I would like to submit a detailed explanation of the plan and ask that it be made part of the record.

General Characteristics

Here are the fundamentals of the plan:

Provided Congress gives us the necessary statutory authority, our user fee program will recover the full cost of Agency operations, including administrative costs and support services. Separate fees will be established for red meat, poultry, and import inspection. In addition, the Agency will continue to charge an hourly rate for overtime inspection activities.

Federal funding of grants to State inspection programs will be eliminated at the start of the user fee program. I will return to this later and discuss the implications for the States.

The final general element of the plan that I want to mention is very important, and I cannot stress it too strongly. No changes in inspection methods will be made to accommodate user fees. In other words, the basic integrity of our program will be unaffected.

This is how the user fee plan will work:

Fees for slaughter and processing

User fees for domestic slaughter and processing activities will be assessed on a per carcass basis and will be billed to the slaughter location. The estimated per carcass charges are approximately $3.24 for cattle, 75 cents for calves, 90 cents for hogs, 2 cents for young chickens, and 11 cents for turkeys. The actual fees, of course, will be adjusted annually to meet the estimated inspection expenses of that year.

It may appear that under this system of charging to the slaughter operation fees for both slaughter and processing, the processing sector will not be paying its full share of inspection costs. I would argue, however, that the system allows the market to function naturally, passing costs along from slaughterer to processor and on through the marketing chain. The result will be an equitable distribution of the cost of inspection.

Fees for import inspection

User fees for import inspection will be assessed on a basis of hours of inspection and billed to the importer. As is currently the case, the intensity of inspection will vary according to a foreign plant's compliance history. The expected charge per hour will be $48.47. It covers not only basic inspection costs, but also all other expenses associated with our import inspection program -- including foreign plant reviews.

Funding mechanism

Adoption of user fees will mean that annual congressional appropriations for FSIS will no longer be required. The Secretary of Agriculture will be responsible for establishing and implementing the user fee system, and income and expenditure reports will be submitted to the Office of Management and Budget as part of the normal budget process.

Funds collected through user fees will be deposited into an FSIS account in the U.S. Treasury, and will then be available to the Agency. The following stages comprise the funding cycle:

FSIS performs inspection services, and inspectors complete the required forms. The Agency reports billing information to the National Finance Center, which bills the plants and importers according to the user fee rate established. They pay the fees, the funds are deposited in the FSIS Treasury account, and FSIS draws on the account to pay its expenses.

We expect that only about 32 additional positions will be required for administering the user fee system, and that the annual cost of the system will be only about $1.5 million. The reason is that it is very economical to assess user fees at the slaughter location and base them on both slaughter and processing. The administrative cost would rise dramatically if fees were assessed at both slaughter and processing operations: according to our calculations, nearly $7.4 million a year and 163 additional staff years would be required.

A fee based on hours of inspection would also be economical to administer --

one reason that system was selected for import inspection -- but for domestic inspection would place small plants at an extreme disadvantage. The Agency generally can conduct inspection far more efficiently in larger plants where inspectors can examine more product in less time. Consequently, both patrol plants and small plants with a full-time inspector would usually pay more per pound of product for inspection on an hourly basis. In some cases, the hourly rate for inspection might even exceed the plant's hourly rate of profit, thereby forcing the plant to close down.

Impact on States

I promised earlier to return to the subject of the impact user fees will have on States. Currently, half the cost of each State-operated inspection program is funded by FSIS. In FY 1985, State grants totaled $33.2 million. Since that Federal funding will be eliminated, the 27 States that now operate their own program will have to increase State appropriations or initiate their own user fee programs. At this point, we just do not know how the States will react. But if any choose to abandon their State programs, the Federal government will have to pick up the burden.

CONCLUSION

That concludes my remarks on the user fee system, Mr. Chairman, and my prepared statement, as well. I will be glad to answer any questions you or other members of the Committee may have. I appreciate this opportunity to appear before you.

STUDY OF USER FEE OPTIONS FOR THE FOOD SAFETY AND INSPECTION SERVICE

EXECUTIVE SUMMARY

Purpose

In December 1985, the Administration directed the Food Safety and Inspection Service (FSIS) to develop a user fee system where the costs of the meat and poultry inspection program would be paid by the regulated industry, starting with the Fiscal Year 1987 budget. The purpose of this study is to analyze alternatives and recommend methods for FSIS to assess and collect user fees.

User Fee Options

FSIS considered two options for assessing user fees for both domestic and import inspection. These options are the following:

(1) Fee Based on Hours of Inspection. Plants and importers would pay a given rate for each hour of inspection received.

(2) Fee Based on the Volume of Production. Plants would pay for inspection based on some measure of production, e.g., number of head slaughtered or pounds of product produced. Importers would pay a fee based on the total number of pounds of imported product.

After identifying these options, the Agency selected three criteria--equity, efficiency, and accountability--to assess the effectiveness of each user fee option. These criteria were selected because they represent objectives for managing the inspection program with minimal disruption to the industry and to the inspection process.

Analytical Framework

This study views the designing of a user fee system as two distinct tasks: the first is to determine the basis for assessing user fee charges; the second is to design the collection and enforcement mechanism. As described in the

Agency's rationale for a user fee system, a user fee assessment must reflect the distribution of program benefits and be resistant to external pressures. Therefore, the "equity" and "accountability" criteria are first used to evaluate user fee assessment options. After the assessment option is selected, the "efficiency" criterion is used to determine how collection and enforcement should be implemented using the selected assessment base.

Domestic Inspection User Fee System

For domestic inspection, this study concludes that volume of production is the most equitable means for assessing user fees because it most closely reflects the distribution of benefits from inspection and avoids penalizing small firms for inspection inefficiencies which are not under their control. Using production volume also avoids generating undue pressure on the Agency to reduce inspection in an individual plant.

This user fee would be collected at the site of slaughter. These fees would cover both slaughter and processing inspection costs. This recommendation is based on the conclusion that the burdens associated with providing assessment data in processing plants makes it impractical to collect a user fee at processing plants. The recommended user fee system relies on the market to distribute the costs of inspection among processors in proportion to their purchase or use of meat and poultry ingredients.

Import Inspection User Fee System

For import inspection, this study recommends hours of inspection as the assessment mechanism because it best reflects the distribution of inspection costs. This import user fee system would be relatively easy to implement and operate. FSIS can use existing data bases and resources for administration and enforcement.

User Fee Funding Mechanism

FSIS proposes to finance its inspection and support activities through a General Enterprise Revolving Fund. Under this arrangement, FSIS would conduct inspection as before and then report to the National Finance Center (NFC) the specific user fee charges for affected plants and importers. Next, NFC bills these plants and importers and they pay their respective user fee bills. No FSIS personnel are directly involved in the handling of funds. Receipts are deposited in an FSIS account at the U.S. Treasury and are available to the Agency to pay its expenses. The funds do not show up as budget authority in the Department's budget. No annual congressional appropriations would be required. Congressional oversight would depend on the provisions of the law.

I. INTRODUCTION

Purpose

The Federal Meat Inspection Act of 1906 and the Poultry Products Inspection Act of 1956 require that all meat and poultry sold in interstate commerce be safe, wholesome, and accurately labeled. To accomplish this, FSIS inspectors examine the carcass of every animal and bird slaughtered in federally inspected plants. In addition to inspecting carcasses at slaughter, FSIS inspects processed meat and poultry products made from these carcasses. At present, inspection is financed from USDA's annual budget appropriated by Congress.

In December 1985, the Administration directed the Food Safety and Inspection Service (FSIS) to develop a user fee system. A system, where the total costs of inspection would be paid by the regulated industry, would be implemented beginning with the Fiscal Year (FY) 1987 budget.

This study considers various options for assessing and collecting user fees for meat and poultry inspection. Two basic types of user fees--hourly inspection rate and production fee--are examined.

Background

Title V of the Independent Offices Appropriations Act of 1952 (31 USC 483a) specifies that the Federal Government should be compensated for services that benefit specific individuals or groups. On September 23, 1959, Office of Management and Budget (OMB) Circular A-25 was first issued setting forth the policies governing user fee charges for Federal activities that supply benefits to identifiable recipients beyond those received by the general public. The circular states:

> Where a service (or privilege) provides special benefits to an identifiable recipient above and beyond those which accrue to the public at large, a charge should be imposed to recover the full cost to the Federal Government of rendering that service. For example, a special benefit will be considered to accrue and a charge should be imposed when a Government-rendered service...(P)rovides business stability or assures public confidence in the business activity of the beneficiary...[1]

In April 1930, interest in user fees increased, and the Senate Committee on Appropriations requested USDA to review its inspection, grading, and classification programs to determine whether revisions were needed to assure equal treatment of each commodity group involved. The Department's response considered the impact of fee-for-service systems of funding.[2] The study concluded that assessing user fees to fund mandatory meat and poultry inspection activities that were not currently paid for by industry would require a change in legislation.

Before FSIS can implement any user fee system, Congress must amend the Federal Meat Inspection Act and the Poultry Products Inspection Act to:

- Permit the Federal Government to charge for mandatory inspection services (other than those performed on holidays and overtime).[3]

- Permit the Federal Government to establish an account in the U.S.

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[1] OMB Circular No. A-25 "User Charges," as amended, Office of Management and Budget, April 16, 1974, p.1-2.

[2] Analysis Of Alternative Sources Of Funding And Program Effectiveness Of Agricultural Commodity Inspection, Grading, And Market Monitoring. U.S. Department of Agriculture, April 1980.

[3] The Agency currently has authority to charge fees for three types of inspection activities. First, the Agency charges for inspection of animals not covered by the meat and poultry inspection acts such as rabbits. Second, the Agency charges for overtime inspection and for inspection provided on holidays. Finally, the Agency charges for any inspection of exported product that is in excess of the inspection requirements placed on domestic product.

Treasury to accept and disburse payments associated with charging for inspection and paying the inspection costs.

These changes would permit the Agency to design a system that would recover the total cost of providing inspection services. With these changes, the system would be implemented in FY 1987.

Report Plan

The next chapter presents the policy guidelines and analytical methodology for evaluating two user fee options. The third chapter describes and evaluates the two user fee options for domestic inspection. The fourth chapter focuses on implementation of the chosen option. The fifth chapter discusses two user fee options for import inspection.

II. POLICY GUIDELINES AND ANALYTICAL METHODOLOGY

This chapter provides the basic guidelines which the Agency uses to analyze various user fee options. It presents the Agency's user fee rationale, policy framework, three assessment criteria, and analytical methodology used to evaluate, select and implement a user fee system.

FSIS User Fee Rationale

As discussed in Chapter I, Federal Government policy states that user fees are applicable when special benefits accrue to identifiable recipients. The Agency believes that one benefit of meat and poultry inspection is the increased consumer confidence in meat and poultry products that accrues to all establishments in the inspection system. The Agency's inspection activities help to assure public confidence in meat and poultry products by assuring that all products traded in commerce meet standards of safety, wholesomeness, and consumer information. The inspection process keeps unsafe, unwholesome, or improperly labeled products out of the marketplace. This protection of markets is symbolized by the mark of inspection on all meat and poultry products produced in federally inspected plants.

Although the Agency believes that the benefits of meat and poultry inspection are not precisely measured by the cost of specific inspection activities within individual plants, it recognizes that the costs of inspection in individual plants are closely related to the magnitude of a plant's benefits from the inspection program because both costs and benefits are related to the volume of production. Therefore, the underlying premise of the Agency in developing fees based on inspection costs is that these costs are a reasonable reflection of the distribution of benefits from inspection.

The user fee assessment options that are considered in depth in this paper are those which permit the Agency to charge fees that are related to the magnitude of inspection costs within plants. However, since the reason for using costs as a basis for assessing fees is based on the fact that these cost distributions approximate benefit distributions, where cost differences do not reflect benefit distributions, they are "averaged" out when determining the base for a user fee assessment.

Policy Framework

Before describing and assessing alternative options for a user fee system, the Agency identified six essential characteristics. They are the following:

(1) The user fee system will recover the full cost of Agency operations, including administrative costs and support services.

(2) The full cost of the inspection program will be recovered beginning in Fiscal Year 1987.

(3) To the extent feasible, the user fee system should reflect differences in the actual costs of inspection for different industry sectors (red meat slaughter, poultry slaughter, food processing and importers). The costs of inspection for each sector should include a proportional share of overhead expenses.

(4) In addition to the user fee charge, the Agency will continue to

charge an hourly rate for overtime inspection activities as required by law.

(5) There will be no changes in inspection methods to accommodate user fees.

(6) Grants to State programs will be eliminated at the start of the user fees.[4] Federally inspected plants will not be required to fund inspection at State inspected plants.

Assessment Criteria

The Agency selected three criteria--equity, accountability and efficiency--to evaluate user fee options. These criteria represent objectives for managing the inspection program under a user fee system with minimal disruption to the industry and to the inspection process. The criteria are defined in the following paragraphs.

Equity

Equity considerations are built into the study at two levels. The first concern is the allocation of costs. As discussed in the policy framework, FSIS believes that, as nearly as possible, each domestic industry sector should be charged only for the inspection required in that sector and that importers should pay the total inspection costs for imported meat and poultry products.

The second level of equity concerns the allocation of costs within each sector. Here, the study defines an equitable user fee system as one which reflects the costs of inspection, to the extent possible, without placing small businesses at a disadvantage. The concern for small businesses has been incorporated into the definition of equity because of the influence that economies of scale exert on the cost of performing inspection. In most cases, inspection is more efficient at large plants. The Agency seeks to design a user fee system that does not penalize small plants because of the less efficient inspection in those plants, since variations due to inspection efficiency do not reflect the distribution of benefits. In examining alternative means for assessing fees, the Agency has attempted to neutralize the diseconomies of performing inspection in small plants.

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[4] Currently, State-managed inspection programs can receive up to one-half of their operating funds from the Federal Government. The loss of Federal grants may result in States turning their programs over to FSIS which would increase FSIS' costs. Currently, 27 State-managed meat inspection programs and 23 State-managed poultry inspection programs are operating.

Accountability

The Agency's primary objective is to carry out its regulatory responsibilities. A user fee system must assure that standards will be maintained and uniformly applied despite the fact that industry is paying for a regulatory service. The Agency should be able to assure consumers and industry that the inspection program is resistant to external pressures, particularly pressures to modify its inspection standards. By designing a basis for user fees that is not directly related to the use of inspection resources in a particular plant, the Agency can avoid providing an opportunity for such pressures to be generated. Further, the Agency should be able to assure that all users are paying their fair share. This means that the user fee system must use objective, verifiable data.

Efficiency

The Agency seeks to design a user fee system that is not excessively costly for the Agency or the industry to administer. The system must be uniformly applied and understandable. It should require as few additional reporting requirements for industry as possible and as small an additional workload for the Agency as possible. Existing data now supplied by industry or collected by the Agency should be used whenever possible.

Analytical Framework

There are two distinct tasks involved in designing a user fee system: the first is to determine the basis for assessing user fee charges; the second is to design the collection and enforcement mechanism. In accordance with the

Agency's rationale for a user fee system, a user fee assessment must reflect the distribution of program benefits and be resistant to external pressures. Therefore, the "equity" and "accountability" criteria are first used to evaluate user fee assessment options. After the assessment option is selected, the "efficiency" criterion is used to determine how collection and enforcement should be implemented using the selected assessment base.

This analytical framework gives precedence to "equity" and "accountability" objectives in designing a user fee system and reflects the Agency's belief that the credibility, and therefore the feasibility, of the system requires that these objectives be met even if the resulting implementation is more costly.

As stated in the policy framework and in the definition of equity, FSIS believes that each industry sector should be charged only for the inspection required in that sector. Since domestic and import inspection involve different activities in different settings, they have a different sensitivity to assessment mechanisms. For clarity of exposition, the evaluation of the domestic inspection user fee options is separated from the evaluation of import inspection options.

III. OPTIONS FOR ASSESSING DOMESTIC INSPECTION USER FEE

This chapter examines in depth two options for assessing a user fee charge for domestic inspection: a fee based on hours of inspection and fee based on production. Each option is defined and then evaluated against the equity and accountability criteria.

As explained in the User Fee Rationale section in the previous chapter, the Agency has concluded that in order to equitably reflect the benefits of meat and poultry inspection, a user fee charge must approximate the distribution of inspection costs. For this reason, after a preliminary review of assessment options, the Agency has rejected for further consideration those options such as license fees and fees based on violations that do not meet this requirement.

Fee Based on Hours of Inspection

Fees for inspection could be based on an hourly rate for inspector time. The hours of direct inplant slaughter inspection for FY 1984 were 5.79 million hours for red meat and 5.81 million hours for poultry.[5/] Using the FY 1984 obligated costs of $107.0 million for red meat and $92.2 million for poultry, the hourly rates would be $18.48 per hour ($107.0 million ÷ 5.79 million hours) and $15.87 per hour ($92.2 million ÷ 5.81 million hours), respectively.

Processing inspection required approximately 4.47 million hours in FY 1984.[6/] Given the FY 1984 cost of processing inspection of $99.7 million, an inspection charge of $22.30 per hour ($99.7 million ÷ 4.47 million hours) would be required. The Agency does not distinguish between meat or poultry processing inspection hours. In many cases it would not be possible to do so because both meat and poultry products are being produced in the same plant. The Agency assumes there is no difference in the respective hourly costs of inspecting meat and poultry processed products.

A fee based on hours of inspection is the easier alternative to implement because of the availability of records on inspection hours, but it raises serious questions of equity and accountability for domestic inspection. As far as equity is concerned, a user fee system based on inspector hours places a relatively greater financial burden on small plants. Slaughter inspection is more efficient in large plants because they are equipped to move larger volumes of product through inspection stations in a given time. An analysis[7/] of the ratio of inspection hours per head in three different size cattle slaughter plants showed that the inspector hours per 100 head slaughtered ranged from 5.2 at the largest plant to 18.2 at the smallest. At $18.48 per hour, the cost per head would range from $.96 in the largest plant to $3.36 in the smallest plant. Similarly, for three different size hog slaughter plants, the cost per head ranged from $.22 in the largest to $2.72 in the smallest plant.

5/ Data received from Budget and Finance Division, FSIS, January 1986.

6/ Data received from Budget and Finance Division, FSIS, January 1985.

7/ Based on actual plant data collected in 1981.

For processing inspection, this option places a relatively greater financial burden on small plants and plants in remote locations. The Agency estimates that processing plants on patrol inspection (almost 6,000 plants),[8] which are usually small plants, account for approximately 60 percent of the processing inspection resources but only 30 percent of the product inspected. The Agency inspected an estimated 120 billion pounds of processed meat and poultry products in FY 1984.[9] Thus, an hourly fee for the plants on patrol inspection would amount to an estimated average cost of $.0017 per pound of product inspected [($99.73 million x 60%) ÷ (120 billion pounds x 30%)].

In contrast, the 1,000 processing plants not on patrol inspection represent an estimated 70 percent of the inspected product but require only 40 percent of the resources. For these plants (with one or more full-time inspectors), the hourly fee would result in an estimated average cost of $.00047 per pound of product inspected [($99.73 million x 40%) ÷ (120 billion pounds x 70%)]. The average inspection cost per pound in the patrol plants would be 3.5 times greater than the inspection cost in the larger plants with one or more full-time inspectors.

The difference in cost between large and small plants would be even greater if the largest plants are compared to the smallest plants. An analysis of 10 plants conducted in 1981 found that the cost of processing inspection varied from a low of $.00028 per pound to $.039 per pound, over 139 times as much ($.039 ÷ $.00028).[10]

The allocation of travel time raises another equity issue. Some patrol inspectors spend a considerable amount of time traveling between plants. The above calculations are based on having inspectors allocate their travel time to the individual plants on the patrol (e.g., travel time would be counted as inspection time). Another approach more in accord with the

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8/ Patrol inspectors are responsible for inspection at more than one plant and must allocate their time to each one as needed.

9/ Meat and Poultry Inspection, 1984, Report of the Secretary of Agriculture to the U.S. Congress, USDA/FSIS, March 1, 1985, p. 13.

10/ These calculations are based on actual field data collected in 1981.

study's definition of equity would be to treat travel time as an overhead expense and distribute it equally across all inplant inspection hours.

Agency policy is that plant characteristics alone should determine the amount of time needed for inspection. This situation could be aggravated by some of the indeterminate aspects of patrol assignments. Approximately 1,100 slaughter plants and approximately 5,600 processing plants are inspected by a patrol inspector. (Some double counting occurs here as there are plants that conduct both slaughter and processing activities.) Because deciding how much time is needed in each plant is left to the inspector's judgment, the patrol inspector is particularly vulnerable to pressures to reduce time in specific plants. If questioned about a fee, the Agency would have no clear, objective basis to justify the amount of user charges assessed one patrol plant compared to another.

Basing a user fee on inspection hours would have a negative effect on accountability, because it could encourage a plant to put pressure on the Agency to reduce inspection hours so that its user fee charge would be lower.

Fee Based on Volume of Production

Fees for inspection could be determined by dividing the cost of inspection by the volume of production. There are a number of ways to measure production volume at slaughter, e.g., number of live animals or birds, number of carcasses, pounds of live weight, or pounds of carcass weight. It is convenient to measure pounds of slaughter production by multiplying the number of animals and birds slaughtered by the average carcass weights for each species. The measurement of actual pounds of product would be unnecessarily burdensome because the Agency does not currently collect these data, and plants that slaughter, cut up and further process in continuous operations may not record these data. By counting the number of carcasses and multiplying it by the average species weight, the Agency can best approximate the total pounds of production for each plant in an efficient manner.

There are several ways of measuring production at processing plants, e.g., volume of product inspected, volume of incoming meat and poultry products, volume of outgoing product, and value of incoming or outgoing product. The Agency currently has two data bases for processed products, MP 404 for meat processing and MP 536 for poultry processing. The MP 404 system records pounds of meat product inspected. The MP 536 system records pounds of poultry ingredients used in further processed products. The Agency does not consider these existing data bases acceptable for determining something as sensitive as user fees for individual plants. They are inadequate for implementing a user fee system because:

- As already discussed, the two systems do not measure the same variable, i.e., the MP 404 system records pounds of meat product inspected where the MP 536 system records pounds of poultry product ingredients.

- The MP 404 system was designed to follow product as it moves through different processes. Some processes have changed with technology, raising questions concerning the relationship between the data and actual pounds of product inspected.

- In the MP 404 system, product subjected to more than one reportable process (e.g., boning, cooking and slicing) must be recorded under each process. The number of reportable processes is a subjective measure due to differences in definitions.

- In recent years many meat plants have begun using poultry ingredients. These changes have not been recorded consistently across all plants.

Because of these and other problems, the Agency has concluded that it must either revise the existing data systems or develop a new system based on one of the above measures of production.

This option rates relatively high on equity. First, production volume is a good indicator of the distribution of inspection benefits so that charges based on production volume will also reflect benefit distribution. Second, a charge based on production volume is not affected by inspection efficiency. This means small plants, where inspection efficiency is usually lower, are not placed at a disadvantage as they are when inspection hours are used to assess fees.

This option also rates relatively high on accountability because the charge is not related to the intensity of inspection in the plant. This gives no incentive to plants to put pressure on the Agency to reduce inspection intensity in the plant in order to reduce user fees. Further, it is an objective measure that makes it easy to assure plants that they are paying only their fair share.

Recommended Assessment Option

Table 1 summarizes how the two user fee assessment options rate with respect to the equity and accountability criteria. The conclusion of this analysis is that volume of production is the most equitable basis for assessing user fees because it most closely reflects the distribution of benefits from inspection and avoids penalizing small firms for inspection inefficiencies which are not under their control. Using production volume as an assessment base also avoids generating undue pressure on the Agency to reduce inspection in an individual plant.

TABLE 1

SUMMARY OF USER FEE OPTIONS FOR DOMESTIC INSPECTION

Options	Criteria	
	Equity	Accountability
1. Fee based on hours of inspection	Low	Low
2. Fee based on volume of production	High	High

IV. IMPLEMENTING A DOMESTIC USER FEE SYSTEM

This chapter considers the feasibility of implementing a user fee system that can utilize the assessment base--production volume--developed in the previous chapter. First, two collection options are discussed and evaluated considering the availability of and accessibility to assessment data, the practicality of billing and collection, and the ability of the Agency to enforce the system. Second, the basic funding mechanism is presented. Finally, the calculations for determining the user fees are outlined.

Description of Collection Options

Two methods for calculating and collecting user fees based on volume of production were considered. The first method is to establish production based fees for both slaughter and processing plants. Fees collected at slaughter plants would be based on the cost of slaughter inspection and the volume of slaughter production at each plant. Fees collected at processing plants would be based on the cost of processing inspection and some measure of processing production.

The second method would establish a fee to be collected from slaughter plants based on the total costs of domestic inspection and the production volume at slaughter. Collecting these fees at slaughter would allow the fees to be based on the total domestic production of fresh meat and poultry before these commodities are further processed into products containing widely varying amounts of livestock and poultry ingredients. This option would depend on the market to distribute the costs among processors in proportion to their purchase or use of meat and poultry ingredients.

Both methods of collection would require that the Agency institute a new auditing activity. The size of this activity would depend on the complexity of one assessment process, particularly the availability of and accessibility to data for the assessment base.

Evaluation of Collection Options

The two collection options are discussed in terms of the efficiency criterion.

Option One: Fees Collected at Slaughter and Processing Plants

Implementing this option would create several efficiency problems. First is the difficulty of generating a new or revised data base for processing plants. Generating a new or revised data base to support this system would increase the paperwork burden on plants. OMB would have to assess the impact on industry and increase the Agency's Information Collection Budget before these data could be collected. Further, regular inplant audits would be necessary to assure the integrity of data in the system which determines plant payments.

To assure accountability where establishing the data base is difficult, enhanced auditing is required. Each of approximately 6,600 processing establishments would have its assessment base data audited twice each year. These audits would be necessary to verify that accurate and uniform definitions and reporting procedures are being used in processing plants, since there is no existing data base considered adequate for assessing user fees. The 500 slaughter-only establishments would require much less auditing (see next option) because of an existing data base.

Each auditor (including supervisors) would spend on the average about 1 day (including some travel time) on an audit and would perform 100 audits a year. To perform 14,500 audits annually, the Agency would need approximately 145 auditors (14,500 audits/100 audits per position). The average cost of an auditing position would be about $40,000 per year. To minimize travel costs, these positions would be located within Area Offices. Also required under this option would be additional regional and headquarters support positions and funds to support the billing activities of the National Finance Center (NFC).

The total cost of administering the user fee system under this option would be approximately $7,383,000 which includes 163 additional staff years. These costs are as follows:

1.	Cost of Additional Field Staff: (145 positions) x ($40,000 per position, per year) =	$5,800,000
2.	Cost of Additional Regional Staff: (2 positions) x (5 regions) x ($40,000 per position, per year) =	$400,000
3.	Cost of Additional Headquarters Staff: (8 positions) x ($60,000 per position, per year) =	$480,000
4.	Cost of NFC Processing of Bills: ($3.50 per bill) x (26 bills) x (7,230 establishments) =	$657,900
5.	Cost of Postage: (7,230 establishments) x (26 mailings) x ($.242 per mailing) =	$45,500
	Total Cost	$7,383,400

Option Two: Fees Collected at Slaughter Plants

Determining volume-based charges at the slaughter site would be highly efficient because the number of carcasses is a well-defined, objective measure for which there are readily available, currently collected data. The charges can be determined without a new data collection system and without having to define new units or variables.

The elimination of the problems associated with generating a new or revised data base for processing plants simplifies enormously the problem of auditing the user fee system. With collections only being made at approximately 2,000 slaughter sites using existing well-defined, objective data bases, audits would only have to be conducted periodically when computer program reports suggested a larger than anticipated variance with the Agency's documented production level for a specific establishment. These audits could be conducted by Area Office staffs. Each Area Office staff would be increased by one auditor. A total of 26 auditors would be hired at an average annual cost of $40,000 each. Also required under this option would be additional regional and headquarters support staff and funds to support the billing activities of NFC.

The total cost of administering the user fee system under this option would be $1,505,000 which includes 32 additional staff years. These costs breakdown as follows:

1.	Cost of Area Office Staff: (1 position) x (26 Area Offices) x ($40,000 per positions, per year) =	$1,040,000
2.	Cost of Additional Regional Staff: (1 position) x (5 Regions) x ($40,000 per position, per year) =	$200,000

3.	Cost of Additional Headquarters Staff: (1 position) x ($50,000 per position, per year) =	$60,000
4.	Cost of NFC Processing of Bills: ($3.50 per bill) x (26 bills) x (2,110 establishments) =	$192,000
5.	Cost of Postage: (2,110 establishments) x (26 mailings) x ($.242 cost per mailing) =	$13,300
	Total Cost	$1,505,300

Recommended Collection Option

The table below summarizes how the two options for collecting domestic user fees were rated under the "efficiency" criterion.

TABLE 2

SUMMARY OF COLLECTION OPTIONS FOR DOMESTIC INSPECTION

Options	Efficiency Criterion
1. Collection at Slaughter and Processing Plants	Low
2. Collection at Slaughter Plants	High

On the basis of the evaluation of these two options, this chapter concludes that the burdens associated with providing assessment base data in processing plants makes it impractical to collect a user fee at processing plants. The Agency, therefore, is recommending a user fee system that would collect a fee at the site of slaughter that would cover both slaughter and processing inspection costs, depending on the market to distribute the costs among processors in proportion to their purchase or use of meat and poultry ingredients.

User Fee Funding Mechanism

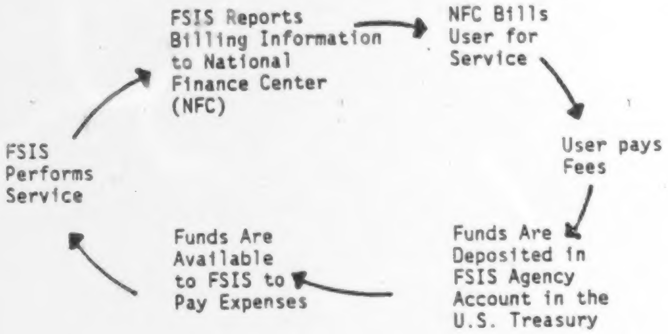
The funding mechanism that FSIS proposes to finance its inspection and support activities is a General Public Enterprise Revolving Fund. Under this arrangement, an FSIS Agency account would be established at the U.S. Treasury.

The deposit-expenditure cycle, as detailed below (Figure 1), begins with FSIS conducting inspection in meat and poultry plants throughout the United States.

Then, FSIS reports to the National Finance Center (NFC) the specific user fee charges for affected plants. Next, NFC bills these plants which then pay their respective user fee bills. No Agency personnel are directly involved in handling of funds. Receipts are all deposited in the FSIS account in the U.S. Treasury. These funds are then available to the Agency to pay its expenses. This fund does not appear as budget authority in the Department's budget.

FIGURE 1

FUNDING CYCLE


FSIS Reports Billing Information to National Finance Center (NFC)
NFC Bills User for Service
User pays Fees
Funds Are Deposited in FSIS Agency Account in the U.S. Treasury
Funds Are Available to FSIS to Pay Expenses
FSIS Performs Service

Under this arrangement, no annual congressional appropriations would be required. Congressional oversight would depend on the provisions of the law. The Department, not Congress, would be responsible for establishing the Agency's annual expenditure level, although Congress may set a limit on these expenditures. Income and expenditure reports would be included in the Department's regular budget submission process and would be sent to OMB. The Secretary of Agriculture would be responsible for establishing and implementing the user fee sytem.

User Fee Calculations for Domestic Inspection

The calculations of user fees begin with an examination of program costs. Table 3 shows FY 1984 obligations[11/] for the meat and poultry inspection program by program activities that correspond to certain industry sectors.

[11/] For the purpose of this study, FY 1984 obligations were chosen as the base period.

TABLE 3

FY 1984 OBLIGATIONS ($000)

FOR FSIS PROGRAMS

Program Activity	Total Program Obligations a/	Agency Support Services b/	Laboratory Support c/	Total	Percent of FY 1984 Obligation
Meat Slaughter Inspection	94,435.4	9,522.7	3,031.4	106,989.5	34.7%
Poultry Slaughter Inspection	82,801.6	8,349.3	1,010.5	92,161.4	30.2%
Processing Inspection	79,082.8	7,975.0	12,670.9	99,728.7	32.4%
Red meat d/				(84,769.4)	(85%)
Poultry d/				(14,959.3)	(15%)
Import Inspection	5,679.2	571.3	2,086.8	8,337.3	2.7%
TOTAL	261,999.0	26,418.3	18,799.6	307,216.9	100%

a/ Program obligations include actual inspection expenses for that activity and a prorated share of direct program support, e.g., Technical Services, circuit supervisors, area and regional offices.

Another item under this category is the Compliance Division budget used for the inspection of allied industries, such as animal food manufacturers and renderers.

b/ Agency support services are allocated using the percentage of total program costs for each activity. Support services include costs for the Office of the Administrator, Administrative Management, the National Finance Center, workmen's compensation, unemployment insurance, postage, and other items.

c/ Laboratory support is the Agency's Science Program, plus its share of Agency support. The allocation of costs by program activity are based on data from the Agency's Laboratory Sample Flow System (LSFS).

d/ Based on a preliminary examination of processing inspection resources.

The total FY 1984 obligations of approximately $307.2 million exclude approximately $31.4 million in grants to State inspection programs. As stated in the policy framework, federally inspected plants would not pay any costs of the State grant program.

As discussed above, the recommended user fee system would collect a fee from slaughter plants that would cover both slaughter and processing inspection costs. The next steps in calculating fees are assessing the charges to cover the slaughter and processing costs identified in Table 3. As mentioned in Chapter III, it is convenient to estimate pounds of slaughter production by multiplying the number of animals and birds slaughtered by the average carcass weights for each species. Using this method, FSIS estimates that 37,171 million pounds of meat and 15,739 million pounds of poultry were inspected in FY 1984. The costs for both red meat and poultry slaughter inspection per pound are estimated by dividing the costs of slaughter inspection from Table 3 by the estimated total pounds of red meat and poultry product, respectively. Thus, the estimated cost of red meat slaughter inspection was $.002879 per pound ($106,989,500 ÷ 37,171 million pounds), and the cost of poultry slaughter inspection was $.005856 per pound ($92,161,400 ÷ 15,739 million pounds).

Individual plant fees for slaughter inspection for a given period could then be calculated by counting the number of carcasses inspected, multiplying that number by an average carcass weight, and multiplying the result by the estimated cost of inspection per pound. However, it is inefficient to repeat this calculation for each plant. It is easier to present the slaughter fees as a group of "carcass assessments" which are calculated by multiplying the average carcass weights by the cost of inspection per pound. Thus, individual plant fees can be determined simply by multiplying the number of carcasses by the appropriate carcass assessments. Table 4 contains the data and estimates used in calculating the carcass assessments: the number of carcasses inspected during FY 1984, the estimates for average carcass weights, the estimates for pounds of product inspected, and the estimates for cost of inspection per pound.

The next step in determining user fee charges is to calculate the processing inspection costs per carcass and then add that assessment to the carcass assessment for slaughter inspection. As shown in Table 3, the cost of processing inspection in FY 1984 was $99.73 million. The Agency estimates that poultry processing inspection cost $14.96 million and red meat processing inspection cost $84.77 million. These processing inspection costs were then distributed across the total pounds of red meat (37,171 million pounds) and poultry (15,739 million pounds) carcasses inspected. The costs for processing inspection are thus $.002281 per pound for red meat ($84.77 million ÷ 37,171 million pounds) and $.000951 per pound for poultry ($14.96 million ÷ 15,739 million pounds).

The resulting processing costs per carcass are then calculated by multiplying the processing costs per pound by the average carcass weights from Table 4. The figures used to make these calculations are shown in Table 5 along with the resulting processing costs per carcass.

TABLE 4

ESTIMATED CARCASS ASSESSMENTS FOR SLAUGHTER INSPECTION FOR FY 1984

Species or Class	Number of Carcasses Inspected FY 1984 (Thousands) a/	Average Dressed Weight or Average Ready to Cook Weight b/	Total Pounds (Millions)	Average Inspection Cost Per Pound c/	Carcass Assessment
Cattle	35,265	624	22,006	.002879	$1.7965
Calves	3,017	144	434	.002879	$ .4146
Hogs	82,699	173	14,307	.002879	$ .4981
Sheep/Lamb	6,434	55	354	.002879	$ .1583
Other Meat	238	varies	70 d/	.002879	varies
MEAT SUBTOTALS	127,653	--	37,171	--	--
Young Chickens	4,203,134	3.0	12,609	.005856	$ .0176
Mature Chickens	173,120	2.8	485	.005856	$ .0164
Turkeys	162,672	15.7	2,554	.005856	$ .0919
Ducks	19,944	4.3	86	.005856	$ .0252
Other Poultry	1,301	varies	5 e/	.005856	varies
POULTRY SUBTOTALS	4,560,171	--	15,739	--	--
TOTAL	--	--	52,910	--	--

a/ Meat and Poultry Inspection 1984: Report of the Secretary of Agriculture to the U.S. Congress, USDA/FSIS, March 1985, pp. 10-11.

b/ Except for mature chickens and ducks, the weights are FY 1984 estimates from Livestock and Poultry Outlook and Situation Report, USDA, Economic Research Service, LPS-14, December 1984 (the estimates for mature chickens and ducks are based on 1982 and 1983 data, also published by the Economic Research Service).

c/ Estimated by dividing total pounds of all red meat 37,171 million pounds into the total red meat slaughter inspection cost of $106,989,500. Same procedure for poultry.

d/ Estimates for goats and equine.

e/ Estimates for other poultry such as geese and guineas.

Table 6 adds both slaughter and processing costs per carcass to determine a single carcass assessment that could be collected from slaughter facilities. As can be seen in Table 6, cattle slaughter operations would be assessed $3.2198 for each carcass while chicken slaughter operations would be assessed $.0205, or about 2 cents per carcass.

The final step in calculating the user fees is to add the administrative and enforcement costs ($1,505,300 annually) which are noted in Table 7, to the carcass assessments in Table 6. Figure 2 illustrates examples of final user fee calculations and bills which could be anticipated under specific production situations.

TABLE 5

ESTIMATE OF PROCESSING INSPECTION COSTS PER CARCASS

Species or Class	Average Dressed Weight or Average Ready to Cook Weight a/	Processing Inspection Cost Per Pound b/	Processing Cost Per Carcass
Cattle	624	$.002281	$1.4233
Calves	144	.002281	.3285
Hogs	173	.002281	.3946
Sheep/Lamb	55	.002281	.1255
Other Meat	varies	.002281	varies
Young Chickens	3.0	.000951	.0029
Mature Chickens	2.8	.000951	.0027
Turkeys	15.7	.000951	.0149
Ducks	4.3	.000951	.0041
Other Poultry	varies	.000951	varies

a/ See Table 4.

b/ Calculated by dividing the cost of red meat processing inspection by the pounds of carcass meat produced at slaughter ($84.77 million ÷ 37,171 million pounds). The corresponding cost of poultry processing inspection is $14.96 million divided by 15,739 million pounds of poultry carcasses.

TABLE 6

ESTIMATE OF SLAUGHTER AND PROCESSING INSPECTION COSTS PER CARCASS

Species or Class	Slaughter Costs Per Carcass a/	Processing Cost Per Carcass b/	Total Cost Per Carcass
Cattle	$1.7965	$1.4233	$3.2198
Calves	.4146	.3285	.7431
Hogs	.4981	.3946	.8927
Sheep/Lamb	.1583	.1255	.2838
Other Meat	varies	varies	varies
Young Chickens	.0176	.0029	.0205
Mature Chickens	.0164	.0027	.0191
Turkeys	.0919	.0149	.1068
Ducks	.0252	.0041	.0293
Other Poultry	varies	varies	varies

a/ See Table 4.

b/ See Table 5.

TABLE 7

ESTIMATE OF SLAUGHTER PROCESSING AND ADMINISTRATIVE COSTS PER CARCASS

Species of Kind	Total Without Administrative Costs a/	Administrative Costs b/	Total Cost
Red Meat			
Cattle	$3.2198	$.0162	$3.2360
Calves	.7431	.0037	.7468
Hogs	.8927	.0045	.8972
Sheep/Lambs	.2838	.0014	.2852
Other	varies	varies	varies
Poultry			
Young Chickens	.0205	.00011	.0206
Mature Chickens	.0191	.00010	.0192
Turkeys	.1068	.00055	.1074
Ducks	.0293	.00015	.0295
Other	varies	varies	varies

a/ Table 6.

b/ The $1,505,300 administrative cost was proportionally allocated to the existing percentages of domestic inspection costs by sector. For example, red meat's $106,989,500 slaughter expenditure represents 35.8% of total domestic inspection costs. Thus, $538,850, or 35.8% of the approximate $1.5 million administrative and compliance costs were assigned to red meat slaughter. Once this allocation procedure was completed (red meat slaughter $538,850, poultry slaughter $464,170, red meat processing $426,930 and poultry processing $75,350) slaughter and processing costs for each sector were added together by sector and then divided by the number of pounds slaughtered by each sector. This yielded an administrative and compliance cost of about $.000026 per pound for red meat and about $.000035 per pound for poultry. These estimates were then multiplied to the average dressed weight per carcass to derive the estimates presented above. For example, cattle, at 624 pounds dressed weight multiplied by the $.000026 yielded an administrative cost of $.0162. The 3 pound chicken multiplied by $.000035 yielded an administrative cost of $.00011.

FIGURE 2

EXAMPLES OF USER FEE CALCULATIONS TO DETERMINE BILLS

Example I: During a 2 week reporting period, Establishment A slaughtered 24,000 cattle (line speed of 300 animals per hour).

	User Fee Bill [a]
Bill for Slaughter and Processing Activities (billing rate per head)	$77,664.00 ($3.2360)
Total Inspection Bill for Establishment A	$77,664.00

Example II: During a 2 week reporting period, Establishment B slaughtered 6,000 cattle (line speed of 75 animals per hour).

	User Fee Bill [a]
Bill for Slaughter and Processing Activities (billing rate per head)	$19,416.00 ($3.2360)
Total Inspection Bill for Establishment B	$19,416.00

Example III: During a 2 week reporting period, Establishment C slaughtered 48,000 swine (line speed of 600 animals per hour).

	User Fee Bill [a]
Bill for Slaughter and Processing Activities (billing rate per head)	$43,065.60 ($.8972)
Total Inspection Bill for Establishment C	$43,065.60

Example IV: During a 2 week reporting period, Establishment D slaughtered 300 swine (line speed of 3.75 animals per hour).

	User Fee Bill [a]
Bill for Slaughter and Processing Activities (billing rate per head)	$269.16 ($.8972)
Total Inspection Bill for Establishment D	$269.16

Example V: During a 2 week reporting period, Establishment E slaughtered 1,000,000 chickens.

	User Fee Bill [a]
Bill for Slaughter and Processing Activities (billing rate per bird)	$20,600.00 ($.0206)
Total Inspection Bill for Establishment E	$20,600.00

Example VI: During a 2 week reporting period, Establishment F slaughtered 200,000 chickens.

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[a] Includes administrative costs associated with user fee system.

FIGURE 2 (continued)

	User Fee Bill [a/]
Bill for Slaughter and Processing Activities (billing rate per bird)	$4,120.00 ($.0206)
Total Inspection Bill for Establishment F	$4,120.00

a/ Includes administrative costs associated with user fee system.

V. ASSESSING IMPORT INSPECTION USER FEES

The inspection acts require that meat and poultry products imported into the United States be inspected under a system at least equal to domestic requirements. This chapter examines two options for assessing a user fee charge for import inspection: a fee based on hours of inspection and fee based on pounds of imported product. Each option is defined and then evaluated against the equity and accountability criteria.

Background

Currently, the United States imports over 2 billion pounds of meat products each year representing approximately 8 percent of domestic consumption.[12/] In order to insure that imports meet U.S. requirements, the International Programs Division conducts two activities: (1) reviews foreign inspection programs and plants, and (2) inspects imported product at port-of-entry (POE).

On-site review of foreign inspection procedures and facilities is conducted by approximately 20 veterinary inspectors stationed in both the United States and abroad. These foreign program officers evaluate the equivalency of an importing country's laws and regulations with those of the United States, determine the adequacy of the system, and conduct periodic reviews of plants certified to export to the United States.

12/ Data received from International Programs, FSIS, January 1986.

Port-of-entry inspection is conducted by import inspectors with the help of a computerized system, the Automated Import Inspection System (AIIS). The system determines the intensity of inspection for each shipment based on a continuously updated history of compliance for that plant and product.

The Agency is proposing a user fee to be collected at the site of port-of-entry inspection. That user fee would cover the cost of on-site foreign inspection as well as the cost of POE inspection.

Evaluation of Assessment Options

Fee Based on Hours of Inspection

This user fee option is a charge based on the total time required to inspect a shipment of imported product. A shipment would be defined as the amount of imported product presented for inspection and documented on Form MP 410. This form is prepared by the importer and documents the product to be presented for inspection. Actual time to conduct the inspection would be the basis for determining the user fee: acceptance of product into commerce or rejection of the shipment would not be a factor.

An individual importer's fee would be determined by multiplying the actual hours of inspection by a set hourly rate. The hourly rate would be $48.47 (excluding administrative costs) based on FY 1984 data (see below):

Total 1984 import/inspection budget = $8.34 million
Total 1984 hours devoted to import inspection = 172,000 hours[13]
$8.34 million/172,000 hours = $48.47/hour

Each time import inspection is required, the importer would be billed at the rate of $48.47/hour for inspection services. This hourly rate would apply regardless of the number or size of lots, type of product, or country of origin. This rate is considerably higher than the estimated hourly fee for domestic slaughter or processing inspection because the rate must include the costs of foreign plant reviews. The estimated administrative costs of $3.74 per billing have not been incorporated into the above hourly charge because they would result in insignificant changes in the hourly charge.

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[13] Data received from International Programs, FSIS, January 1986.

This option rates high on equity. It reflects the distribution of inspection costs among import houses. Each importer would be treated equally; the same hourly fee would apply for inspection no matter what the kind of product or its origin.

As for accountability, import inspection assignments would not be affected by this type of user fee. The intensity of inspection for the subject lot would continue to be generated by the AIIS system, based on the country of origin, foreign plant, product type, and risk factors currently maintained by the system.

Another positive accountability factor associated with this option is that it reinforces inspection objectives in a positive fashion. The intensity of inspection is related to past history of compliance. Therefore, an importer who purchases products from a foreign plant with a good compliance history would be subject to less intensive inspection and have lower inspection charges than an importer who purchases products from a plant with a poor history.

Fee Based on Volume of Production

This user fee option is a charge to the importer based on the total number of pounds of imported product. The total amount of product is reported on the MP 410 which accompanies each shipment presented at the port of entry. Therefore, the sum of accepted and rejected product would be the basis for calculating the user fee charge.

The following calculations based on data from FY 1984 determine an individual importer's fee:

Total import budget = $8.34 million

Total pounds entering U.S. = 2,017.30 million

$8.34 million ÷ 2,017.3 million pounds = $.004 per pound of imported product

The figure $.004 would then be multiplied by the total pounds of imported product, regardless of type or origin, to determine the inspection user fees. The estimated administrative costs of $3.74 per billing have not been incorporated into the above hourly charge.

This option does not rate high on an equity basis. Pounds of product are not a good reflection of program benefits or a good measure of inspection resource requirements. In fact, several types of product may benefit unfairly from this approach, (i.e., high value products, low weight products, high inspection cost products and products from high risk countries).

This option rates high on accountability because the charge is not related to the intensity of inspection. This gives no incentive to the importer to pressure the Agency to reduce inspection. In addition, all necessary data is already recorded on the MP 410 form. This is an objective method that makes it easy to assure importers that they are paying only their fair share.

Recommended Assessment Option

Table 8 summarizes the two assessment options and rates each one according to equity and accountability criteria.

TABLE 8

ASSESSMENT OF USER FEE IMPORT OPTIONS

Options	Criteria	
	Equity	Accountability
Fee based on hours of inspection	High	High
Fee based on pounds of imported product	Low	High

The assessment option for import inspection recommended by the Agency is hours of inspection. This recommendation is based primarily on the basis of equity considerations.

Implementation

An import inspection user fee system would be relatively easy to implement and to operate since FSIS can use existing data bases and resources for administration and enforcement. With slight modifications to the Agency's Time and Attendence forms, data required for billing (inspectors time spent on a particular shipment) a specific import house could be easily ascertained. Spot reviews of hourly data could be made by existing supervisory staff. Any additional time required to fill out forms or review data would only marginally affect other inspector or supervisory activities.

Assuming that the Agency can coordinate billing activities for import inspection within current staff resource levels, the only major additional costs that would be necessary to support an import inspection user fee system would be those associated with the billing:

- Reporting forms would be shipped bi-weekly to field and headquarters locations (either individually or in bulk) and these forms will be shipped bi-weekly in bulk to NFC. The estimated average Agency handling, processing and postage cost associated with each bill would be about $.24.
- NFC would process each bill at an estimated average cost of $3.50.

The Agency estimates these costs would amount to approximately $3.74 per bill.

The Agency cannot estimate the number of bills that would be annually shipped to and from NFC since it is extremely difficult to estimate the average number of lots specific import houses may receive on a daily or bi-weekly basis. Under the worst billing rate scenario, where each import house receives at least one lot per bi-weekly period, a total annual administrative and compliance cost of about $29,000 ((300 import houses) x (26 billing periods) x ($3.74 per bill)) could be anticipated. A more realistic annual billing workload would probably be somewhat less than this.

As in domestic inspection, the funding mechanism that would be used to support this user fee system is the General Public Enterprise Revolving Fund; it is the same as described in Chapter IV. No Agency personnel will be involved in handling of funds.

AGRICULTURAL MARKETING SERVICE

Mr. TRACY. Now, I will introduce Jim Handley, the Administrator of the Agricultural Marketing Service.

Senator COCHRAN. Welcome, Mr. Handley.

Mr. HANDLEY. Thank you, Mr. Chairman.

Thank you, Mr. Tracy.

I, too, appreciate the opportunity to appear before you this morning to discuss the programs of the Agricultural Marketing Service, and our budget proposal for fiscal year 1987.

As you noted earlier, Mr. Chairman, I have submitted a complete version of my statement for the record. At this time, I would like to discuss the fiscal year 1987 budget request.

FISCAL YEAR 1987 BUDGET REQUEST

Our fiscal year 1987 budget proposals continue our efforts to reduce Government spending through the elimination of programs or through the imposition of user fees for services which provide special benefits to identifiable recipients.

We propose reducing our marketing services appropriation from $31.8 million to $4.3 million. In addition, appropriated funds needed to administer the section 32 program will be reduced from $9.2 million to $3.3 million.

Much of these proposed savings are contingent upon passage of user fee legislation. Specific proposals requiring legislative changes include a $15 million reduction in the market news program. Legislation will be proposed which will allow user fees to be charged to recover the entire cost of collecting, analyzing, and disseminating market news information.

A $9.4 million reduction is proposed for egg products inspection. The proposed legislation will allow user fee assessments to recover the full cost of the program.

A $3.3 million reduction is proposed for commodity standards. Legislation will be proposed to enable fees to be charged for the costs associated with developing, reviewing, and modifying those standards.

A $31,000 reduction is proposed for the Export Fruit Acts, to allow full user fees to be charged for these inspection services.

A $700,000 reduction is proposed in market development and assistance. Costs associated with this program will also be recovered through user fees.

A $6.3 million reduction is proposed in section 32 funds. The proposed legislation will require industry to reimburse AMS for the costs associated with administering agricultural marketing agreements and orders.

Reductions which can be achieved without enabling legislation include a $1.6 million reduction to eliminate the wholesale market development program; a $1 million reduction to eliminate the payments to States program; and a $1 million reduction to eliminate the Federal seed program. Legislation is being proposed to repeal the Federal Seed Act; however, the savings can be achieved without passage of this legislation.

In conjunction with these proposals, one-time startup and closeout costs of $2.9 million are being requested. These funds are necessary for each program proposed for termination or whose funding source is being shifted from appropriations to user fees. Resources are needed to fund leave liability, unemployment and workers' compensation, and other accrued liabilities.

Once our fiscal year 1987 budget proposals are implemented, the percentage of user fee funding within the Agency will increase from 73 percent to 95 percent.

At this point, Mr. Chairman, I will conclude my testimony, and I stand available to answer any questions you or the other members may have.

[The statement follows:]

STATEMENT OF JAMES C. HANDLEY

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you to discuss the programs of the Agricultural Marketing Service (AMS) and our budget proposal for fiscal year 1987. I have with me our Deputy Administrator for Marketing Programs, William T. Manley; our Deputy Administrator for Commodity Services, Eddie F. Kimbrell; our Deputy Administrator for Management, John T. Reeves; and our Financial Management Division Director, Joseph A. Roeder. They are prepared to respond to any technical questions that may arise.

My first year as Administrator of AMS has been an exciting and challenging one. I have had an opportunity to work closely with industry, Congress, and the general public and learn first-hand the importance of the services provided by AMS. Our programs provide the basic building blocks for efficient marketing of agricultural commodities. Thousands of people in the marketing chain rely on our services to move food and other farm products quickly, efficiently, and fairly throughout the country.

In this last year we have achieved many noteworthy accomplishments. For example, AMS developed, implemented, and successfully administered new programs such as the Imported Tobacco Inspection Program and oversight of the National Dairy Research and Promotion Program.

We also made significant progress in our effort to introduce advanced technology into our programs. We are now utilizing satellite communication to disseminate market news information throughout the country. We have also expanded the use of computers in the field to assist, expedite and provide more accuracy in our grading and classing activities. We are continuing automation efforts both at headquarters and in the field to facilitate program delivery and enhance management of our activities.

While the past year has been rewarding, the upcoming year will be a greater challenge as we begin developing programs in response to provisions in the 1985 Farm Bill and the Deficit Reduction Act.

I firmly believe that AMS programs are some of the most effective in USDA. However, regardless of their effectiveness, the nation's growing national debt requires each of us to take a hard look at all of our programs and services. During the budget review process, we thoroughly examined each activity to determine if any could be streamlined, curtailed, or even eliminated without crippling the private marketing system we service. Because of the unique nature of our services, we first looked for programs to reduce or eliminate which could be provided by another source or be charged directly to the people who receive the primary benefit of the program. In FY 1987, we hope to eliminate programs costing $3.6 million and transfer an additional $34.6 million in funding from appropriations to user fees.

DEFICIT REDUCTION ACT REDUCTIONS

We applaud Congress' resolve to enact legislation requiring a balanced budget and we support and are willing to make the sacrifices necessary to help achieve this worthwhile goal.

It is our hope that agreement on specific appropriation reductions can be reached to prevent the triggering of across-the-board reductions. Within AMS, as throughout government, we would prefer having the flexibility to target our appropriation reductions rather than dissipating programs which we feel are more essential.

We are concerned that recent legislation requiring across-the-board reductions will also curtail services in user funded and reimbursable programs while effecting no reduction in the Federal deficit. Our cotton classing, dairy grading, fresh and processed fruit and vegetable grading, meat and livestock grading, poultry and egg grading, seed inspection, tobacco inspection, and Perishable Agricultural Commodities Act licensing programs are entirely fee supported. In addition, our reimbursable activities, such as egg products inspection overtime and oversight of the various research and promotion programs, are also entirely fee supported. Revenue generated from these voluntary fee-for-service programs offset any expenditures incurred in providing these services. Consequently, sequestering obligations in these programs will result in corresponding decreases in revenue and denial of services which industry is willing to pay for. This will create havoc not only in the domestic market but also on our exports.

Prior to discussing the specifics of our fiscal year 1987 budget proposals and deficit reduction efforts, I would like to briefly discuss our agency programs.

AMS' PURPOSE AND ACTIVITIES

Within AMS we administer 35 statutes, each of which was enacted to promote orderly and efficient marketing and effective distribution of products from the nation's farms to consumers. We achieve these goals through programs which enhance producer returns, promote market efficiencies, and assure consumers of quality products.

We administer a Market News Program which provides timely information on various agricultural commodities. Supply and demand information, data on changing market conditions and other pertinent information is disseminated locally as well as nationally to enhance competition and aid purchase and sale decisions.

We develop commodity grade standards which reflect the primary characteristics of agricultural commodities. These standards are applied in our voluntary grading services and provide an impartial appraisal of the quality of the product being sold. Once a grade has been assigned, transactions can occur without either party having visually inspected the product.

We administer numerous regulatory activities through our Market Protection and Promotion Program (MPP). Under the MPP, we enforce the Federal Seed Act, a truth-in-labeling law which regulates interstate commerce of agricultural and vegetable seeds; we enforce the Plant Variety Protection Act by issuing patent-like certificates of protection to developers of new seed varieties; and we monitor industry research and promotion activities which are designed to stimulate domestic consumption and exports of specific agricultural commodities.

We also administer the Perishable Agricultural Commodities Act to ensure fair trade practices in the marketing of fresh and frozen fruits and vegetables. Without these regulatory programs, producers, handlers, and consumers would be unprotected from financial loss resulting from careless, deceptive, or fraudulent marketing practices.

We administer the Wholesale Market Development and the Payments to States Programs. Technical assistance and financial support is provided to cities to aid in moving agricultural products from the farm to the consumer.

We also administer fruit and vegetable and dairy marketing agreements and orders. These orders establish minimum prices farmers receive for milk and stabilize supplies and market prices for fruits and vegetables.

We also administer the Section 32 commodity purchase program. Commodities are purchased for FNS' domestic feeding programs and to remove surplus commodities from regular marketing channels.

USER FEES

Industry has noted the relative importance of our programs to their well being and is willing to support them through user fees, when required to do so by law. Seventy-three percent of our programs are fully supported by user fees.

Most of our programs are voluntary, yet demand for our services continues to be strong. Industry recognizes that our programs enhance trade, provide stability in the marketplace, bolster consumer confidence and increase returns to producers.

AMS is committed to the concept of user fees. We firmly believe that recipients of our services should bear the financial cost associated with providing that service. In accordance with this philosophy, over the past several years AMS has shifted the cost for many of its services from appropriations to user fees.

We intend to actively pursue the possibility of charging fees for many of the remaining appropriated activities we administer. If our fiscal year 1987 budget is approved and legislation enacted, AMS will be 95 percent fee supported within the next several years.

FISCAL RESPONSIBILITY OF A FEE FOR SERVICE AGENCY

The responsibility of a fee for service agency, such as ours, is unique. The voluntary nature of our services require that we respond quickly to our users' needs and make every effort to minimize costs. Without such a commitment industry would likely see no need for our services.

We maintain responsiveness to industry by keeping the lines of communication open between ourselves and the users of our services. Changes in consumer preference, agricultural engineering, food processing technology and practices of the food industry are evaluated constantly as the continued existence of AMS is dependent upon the usefulness of our service as well as its cost. In an effort to maintain and expand our lines of communication, we operate our programs in a cooperative effort with Advisory Committees made up of members from industry. Changes in policy or regulations are presented to the Committees for consideration. Their responses are carefully evaluated and considered before any final decisions are made.

The other essential objective we must adhere to in our voluntary programs is minimizing costs. Our success in this endeavor is readily apparent when one considers that in constant dollars, our fees have risen an average of only 3% a year since 1982 compared with an overall inflation rate of 4.5%. We have achieved this by keeping a prudent eye on program costs, increasing productivity and through automation efforts. Automation initiatives have ranged from the implementation of electronic communication between field offices and headquarters to reduce paperwork and speed up the flow of information, development of a high volume precision testing instrument to enhance cotton classing, to portable and hand held computers being tested by our livestock and dairy graders.

UPDATE ON RECENTLY IMPLEMENTED PROGRAMS

AMS established several new activities during the past two years. The Dairy and Tobacco Adjustment Act of 1983 authorized the establishment of a National Dairy Promotion and Research Program and an Imported Tobacco Inspection Program. The first full year of each of these programs has just been completed.

The National Dairy Promotion and Research Program was implemented within the timeframe established by legislation. Funding needed for this promotional effort was provided by a 15-cent per hundredweight assessment on each dairy producer. Continuation of the assessment to fund similar activities was approved in a referendum conducted during August 1985.

Approximately 287 million pounds of imported tobacco was inspected in fiscal year 1985. Data collected from these inspections is being used to help determine price supports that will make American tobacco more competitive with that produced in foreign countries.

NEW RESPONSIBILITIES

The 1985 Farm Bill which was recently enacted places additional responsibilities on AMS. Beef, Pork and Watermelon research and promotion programs were authorized by the Act and we expect proposed orders to be submitted to the Department for consideration shortly.

The Farm Bill also authorizes a whole herd dairy buyout program to reduce the production of milk. In conjunction with this effort, the Bill requires the purchase of 400 million pounds of red meat products for distribution in domestic and overseas markets. Although the specifics of this program are still being developed, the law requires that the commodity purchases be achieved over the next 18 months.

RECENT AUTOMATION EFFORTS

During the last year we made significant progress in improving the efficiency and timeliness of our services through automation efforts. For example, in December 1985, the dairy grading program initiated a pilot project designed to expedite the processing of dairy grading certificates. Hand-held computers are being used by the graders to electronically input information into a central computer and enable grading certificates to be typed automatically for distribution. If this project proves feasible, costs and document processing time will be reduced.

In the cotton classing program, a pilot project which allowed gins and grower agents to access cotton quality information via personal computers was undertaken. This project proved highly useful. As a result, the information service will be expanded to all 20 marketing services offices by the end of fiscal year 1986.

FISCAL YEAR 1987 APPROPRIATION REQUEST

Our fiscal year 1987 budget proposals continue our efforts to reduce government spending through the elimination of programs or through the imposition of user fees for services which provide special benefits to identifiable recipients.

We propose reducing our marketing services appropriation from $31.8 million to $4.3 million. In addition, appropriated funds needed to administer the Section 32 program would be reduced from $9.2 million to $3.3 million. Much of these proposed savings are contingent upon passage of user fee legislation.

Specific proposals requiring legislative changes include:

-- A $15 million reduction in the Market News Program. Legislation will be proposed which will allow user fees to be charged to recover the entire cost of collecting, analyzing and disseminating market news information;

-- A $9.4 million reduction for Egg Products Inspection. The proposed legislation will allow user fee assessments to recover the full cost of the program;

-- A $3.3 million reduction for Commodity Standards. Legislation will be proposed to enable fees to be charged for the costs associated with developing, reviewing or modifying standards;

-- A $31 thousand reduction for the Export Fruit Acts to allow full user fees to be charged for these inspection services;

-- A $700 thousand reduction in Market Development and Assistance. Costs associated with this program will also be recovered through user fees; and

-- A $6.3 million reduction in Section 32. The proposed legislation will require industry to reimburse AMS for the costs associated with administering marketing agreements and orders.

Reductions which can be achieved without enabling legislation include:

-- A $1.6 million reduction to eliminate the Wholesale Market Development Program;

-- A $1.0 million reduction to eliminate the Payments to States Program, and

-- A $1.0 million reduction to eliminate the Federal Seed Program. Legislation is being proposed to repeal this Act, however, the savings can be achieved without passage of legislation.

In conjunction with these proposals, one-time start-up and close-out costs of $2.9 million are being requested. These funds are necessary for each program proposed for termination or whose funding source is being shifted from appropriations to user fees. Resources are needed to fund leave liability, unemployment and workers' compensation and other accrued liabilities.

Once our fiscal year 1987 budget proposals are implemented, the percentage of user fee funding within the agency will increase from 73 percent to 95 percent.

We take pride in the fact we are a service oriented agency. As I have mentioned the continued existence of AMS is predicated on the usefulness and cost of our service. We believe we have managed our programs well and this is borne out by industry's requests for our services.

We are hopeful that Congress will review the impact on user fee activities of any across-the-board reductions which may be necessary in the upcoming years. Unless a revision is made in the current sequestration process, those user fee legislative proposals included in our fiscal year 1987 budget would continue to be subject to the sequester process and still would not reduce net spending or the deficit.

FUTURE DIRECTIONS

In my opinion, AMS can look forward optimistically because the industries it serves remain confident the Agency can provide the desired services and meet the challenge of change. Close cooperation with all levels of the agricultural industry, continuing automation, increasing the commitment to user fees, responsiveness to the needs of the users of our services and cost control in our programs will be our immediate priorities.

It is clear to us that the continued delivery of the high quality service that industry and the public have come to expect, in light of increased pressure to cut budgets, will be the greatest task we face. However, I believe AMS is up to the challenge and I am confident that this Agency will continue to be the superb performer it has always been.

STATEMENTS OF COMMITTEE MEMBERS

Senator COCHRAN. Thanks, Mr. Handley, we appreciate your testimony very much. We have your complete statement and it will be included in the record.

Secretary Tracy, does that conclude the presentation to the committee?

Mr. TRACY. Yes, sir.

Senator COCHRAN. We appreciate your presentations, and, at this time, we are going to recognize the Senator from Pennsylvania, Mr. Specter, who has another commitment in another committee, for whatever questions or comments he chooses to make at this point.

Senator SPECTER. Thank you very much, Mr. Chairman.

Thank you, Senator Mattingly, for yielding to me for just a moment.

I regret that I cannot stay, Mr. Chairman, but I do have a series of questions to be submitted for response for the record, and with particular concern about the Food Safety and Inspection Program.

I would ask that they be submitted for the record and the responses made.

Senator COCHRAN. Without objection, they will be submitted, and we trust that Mr. Tracy or the appropriate agencies will respond to them in a timely fashion for the committee.

I have questions for each of you, but let me say that we are all called upon to be two or three different places at once some days. I know Senator Mattingly has other responsibilities, too, so I am going to recognize him at this point for any comments or questions that he might have, and I will save my questions for later.

Senator Mattingly.

Senator MATTINGLY. Thank you very much, Mr. Chairman.

I understand, Mr. Tracy, in the statement you made this morning, that you have discovered a surplus from other savings which allow the FSIS to provide inspection for all the currently projected needs through the end of the fiscal year.

Is that correct?

Mr. TRACY. No, sir; not exactly.

We do not expect to be able to provide service for all current needs. We are currently doubling up a number of employees, nearly 200, doubling and tripling and filling those positions, and we also have proposed a furlough for three of the days remaining in this fiscal year for all of the Agency, three remaining Federal holidays; and those would not be affected.

What we do hope to be able to do is partially lift that hiring freeze in order to be able to fill vacancies, further vacancies as they occur in online inspection positions.

Senator MATTINGLY. With the exception of furloughs, will they all be met, the obligations?

Mr. TRACY. We expect to be able to meet the requirements for online positions, both for vacancies and for new lines and new plants that might start up.

FSIS AND FDA INSPECTION

Senator MATTINGLY. Let me ask you something: The FSIS inspection accounts for about 15 percent of the Nation's food supply, and 85 percent is done at the FDA; is that correct?

Mr. TRACY. Dr. Houston?

Dr. HOUSTON. I think it is more like 25/75, but we are in the same ballpark.

Senator MATTINGLY. OK, 25/75.

The FSIS budget is about $365 million, and the FDA is $403 million, is that correct?

Dr. HOUSTON. Yes, sir; I think that is correct.

Senator MATTINGLY. Why, then, if we are spending $365 million for inspecting 25 percent of the food, and FDA can inspect 75 percent of the food for $403 million? Does not that fact indicate that we should try and define some more improvements at FSIS?

Dr. HOUSTON. Yes; we believe there is some room for change there. The reason those figures have that much variation is because of the existing laws and the statutes that require us to carry out inspection in a very specific way in meat and poultry plants.

The administration over the last several years has sent a package to Congress suggesting that the Department be given greater discretionary authority in how it applies resources to processing inspection.

Senator MATTINGLY. That is important. I do not want to belabor it, but if it is currently a 3-to-1 ratio in dollars, maybe it would be a good idea if you would give us recommendations of where we could reduce or switch something. We want FSIS to get as much for the dollar as FDA does.

Dr. HOUSTON. Well, we have asked——

Senator MATTINGLY. We could be allowing the industry to do some of the inspections.

Dr. HOUSTON. Well, we generally agree with that. We are going to have hearings the 29th of this month, on the House side, to take up that question, and we will be there to support changes to that effect.

Senator MATTINGLY. Do you have recommendations in that respect?

Dr. HOUSTON. Yes, sir; we have submitted a legislative package to Congress.

Senator MATTINGLY. That would take the two agencies and sort of equalize them?

Dr. HOUSTON. That would give the Secretary greater discretionary authority to determine the frequency of processing inspection, and we think that it could be done with fewer resources than we are using today.

Senator MATTINGLY. Would it be better to give him greater discretion or would it be better to just change the law? Is it currently left to the discretion of FDA? I do not know; I am just asking for that.

Dr. HOUSTON. Well, our statute requires continuous supervision. FDA's statute does not. FDA uses an intermittent review system.

Senator MATTINGLY. Is that what you want to do, too?

Dr. HOUSTON. I do not think we are prepared to go as far as FDA, but we are prepared to go with inspections on a weekly or a monthly basis, depending on the operations, their compliance history, that type of thing.

Senator MATTINGLY. I think it would be worthwhile to see if you can get closer to a dollar-for-dollar parity between the two.

Mr. TRACY. Senator, if I might add: I think the primary difference is that on the slaughter lines, we are required by law to individually inspect every single one of the 4 billion birds slaughtered in this country, every single carcass of beef, poultry, and lamb, and so on, that is slaughtered in this country. And because we are dealing with a raw, fresh meat product, I think there has been a little bit of a difference in the concern of Congress about the need for a higher degree of inspection there in order to ensure the wholesomeness of our U.S. meat supply.

POULTRY INSPECTION

Senator MATTINGLY. I think you know, the poultry industry is very interested in maybe helping to do more of the inspections. It seems to me it would be a big plus for you.

Dr. HOUSTON. We have had excellent cooperation from the poultry industry, and we have been able to institute some cost-saving measures that have been very dependent upon their cooperation, and that have allowed us to reduce the number of inspectors.

We still have to, by law, inspect each and every one of those birds. We are not proposing a change in that at this point in time, although there are ways where the industry can help us even further to take over a little bit more of that burden, so that we can reduce our staffing somewhat.

Senator MATTINGLY. Thank you very much.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator, for your contribution to the work of the committee.

USER FEES

In connection with the Agricultural Marketing Service request, we notice that there is an expression of hope in your testimony that Congress will review the impact of across-the-board reductions on user fee activities.

Could you explain to us what you mean by that? I am assuming that you are referring to the sequester process under Gramm-Rudman. Tell us what impact that has on user fee activities.

Mr. HANDLEY. Yes, Mr. Chairman, I was referring to the sequester process under Gramm-Rudman. My concern is mainly for fiscal year 1987 and future years.

The OMB and GAO lawyers have determined that user fee programs are subject to the sequester provisions of Gramm-Rudman, even though these programs are totally self-supporting. The way the law was written, these programs are included even though a reduction in expenditures will not in any way reduce the Federal deficit.

Since the sequestered amount in fiscal year 1986 is small, 4.3 percent, and OMB allowed us to apportion the user fee funds in a manner which places the sequestered amount in reserve, there will be no reduction in services this year. Our authorizing legislation requires our user-funded programs to cover all cost of our activities which includes the future cost of leave liability, severance pay, unemployment compensation, and workers compensation. Our reserve balances for these costs currently exceed the 4.3-percent sequester and thus we are able to identify a portion of those reserves as the sequestered amount.

Mr. Chairman, as we look at 1987 and future year deficit targets under Gramm-Rudman, there is a potential for very large sequester actions if the deficits are not reduced through the normal appropriation process, or an exemption is not enacted for user-funded programs. If the sequester amounts significantly increase, we may not have sufficient reserves to set aside and we would have to reduce obligations to fulfill the sequester. This would result in our denying service even though applicants were willing to pay for the service. Since our services are voluntary and the demand for them continues to be strong, we believe they are an important factor in the marketing of agricultural products. If we are forced to deny service, we believe both the domestic and export marketing of U.S. commodities will be hindered.

Senator COCHRAN. Well, you are saying if funds are taken away from you under the sequester order, you may have to deny service or increase the user fees to do those things that were being funded by moneys that are now sequestered. Is that the impact?

Mr. HANDLEY. That could ultimately be the impact.

Senator COCHRAN. It would seem to me if you have user fees and the funds are targeted and earmarked for certain activities, sequestering other funds would not have any impact. It does not have to unless you are going to use those funds for other purposes.

So, are you using user fees for purposes other than that for which they are imposed?

Mr. HANDLEY. No; we are not. They are targeted just for the given inspection service.

ELIMINATION OF PAYMENTS TO STATES

Senator COCHRAN. OK. There was another proposal in your budget request that would actually eliminate payments to States for market development programs. It is not unusual for that to be included in the budget. What would be unusual would be if Congress were to go along with it. [Laughter.]

Mr. HANDLEY. Exactly.

Senator COCHRAN. What would the practical result be, if Congress went along with the administration's proposal?

Mr. HANDLEY. Currently, we have about $1 million for payments to States, and what that program really is, Senator, is a transfer of funds from the Federal Government to State governments, requiring a match by the State, or usually channeled through the State, at least. Our feeling is that because it is simply a funds transfer—and these are times of budget restraints—that this is an area that we can easily eliminate something that will not hurt that many people. We have a small staff involved in this program. It would be a very minimal disruption to anyone if we were to eliminate this program.

Senator COCHRAN. Who benefits from that program?

Mr. HANDLEY. There have been benefits over the past years, clearly identifiable to the States. The specific benefits depend on the proposal we receive. Proposals implemented include such things as studies for cotton classing, different techniques of meat grading, and marketing of meat products. And, so, benefits have been across-the-board.

MARKETING ORDERS

Senator COCHRAN. Is there any consideration being given by the Department to expanding the application of the Federal marketing order concept as a substitute for current support programs for farmers?

If there is consideration being given to this, could you describe the nature and extent of the program for us?

Mr. TRACY. Mr. Chairman, I know some attention was given to that concept over the last couple of years as the Department developed its proposal for the farm bill that was passed recently. I do not believe any consideration is currently under way. That act was signed last December. We expect to operate under it for the next 5 years.

Senator COCHRAN. We appreciate very much Senator Kasten of Wisconsin being here this morning. He contributes a great deal to the work of this subcommittee, and I am going to refrain from pursuing my line of questioning now, and give him an opportunity to make any comments or ask any questions he has.

Senator Kasten.

REMARKS OF SENATOR KASTEN

Senator KASTEN. Thank you. I have a brief statement that I would like to make, and a few questions as well.

First of all, I would like to welcome a fellow Wisconsinite, Alan Tracy. He is a friend. I have known him for a long time, and I have had the privilege of working with him, and I think his work deserves nothing but praise.

He has served the Department, the administration, and the American farmer, I believe, very well; so, Alan, it is good to see you here.

EFFECT OF BUDGET CUTS ON MEAT INSPECTION

Mr. Chairman, I had some questions with regard to the effect of the automatic reductions in spending on meat inspection services.

As you know, Wisconsin is one of the largest meatpacking States in the country. It is my understanding that you have been asked a number of these questions, so rather than repeat the questions, let me just say that I am concerned about the effect of automatic reductions on meat inspection. I have a number of questions which I would like to submit for the record to try to get more information from the Department on this. A number of us are concerned about this issue.

Mr. Chairman, I would like to submit a couple of other questions for the record.

Senator COCHRAN. Thank you, Senator.

We know that the Secretary will ensure that those questions are reviewed promptly and timely answers are filed with the committee, to be a part of our transcript.

BENEFIT OF INSPECTION TO THE CONSUMER

In connection with the Food Safety and Inspection Service budget, the user fees which are being suggested concern me to this extent: In some areas, the Federal Government provides a service to an industry which clearly benefits that industry. When we were discussing the user fee concept a few years ago, I could understand and see that this suggestion had some merit. If an industry-wide service was being provided by the Government, and if that service was going to be helpful to the industry, then the industry could be expected to pay some of the costs, or maybe all the costs.

To me, meat inspection is a situation where the general public benefits because this Agency provides a service which helps ensure the safety of the public.

Now, it is not just a service to an industry; but this is a general public benefit. So I wondered about the justification for requiring the industry to pay all of the costs or a substantial part of the cost of this service. That does not benefit them as much as it benefits the general public; it serves the public interest by ensuring the safety of products for American consumers, in effect.

How is that justified? Has anybody got an answer for that?

Mr. TRACY. I will start it briefly, and ask Dr. Houston to comment further.

Certainly, we agree that the meat and poultry inspection system benefits the general public. There is no question about that.

We also feel that the industry benefits from the assurance of quality, not only in their own plants but in the plants of their competitors; and the very great importance to the industry of having an image of a high-quality meat supply available to the public. So we do feel that there is a benefit which does accrue directly to the industry in this case.

I would ask Dr. Houston to add to that if he can.

Dr. HOUSTON. Mr. Chairman, the Federal Government's policy on user fees is spelled out in OMB Circular A-25, which says, if I could quote just a paragraph from it:

> Where a service or a privilege provides special benefits to an identifiable recipient above and beyond those which accrue to the public at large, a charge should be imposed to recover the full cost to the Federal Government of rendering that service.
>
> For example, a special benefit will be considered to accrue, and a charge should be imposed when a Government-rendered service provides business stability or assures public confidence in the business activity of the beneficiary.

We believe the Agency's inspection activities help to assure public confidence in meat and poultry products by assuring that all of those traded in commerce meet standards of safety, that the inspection process keeps unsafe, unwholesome, or improperly labeled products out of the marketplace.

And, of course, this protection is symbolized by the mark of inspection, and that the benefits that accrue from that are a reasonable reflection of the distribution of benefits from inspection. I think that is our basic rationale.

PARTICIPATION OF INDUSTRY IN USER FEE PROPOSAL

Senator COCHRAN. To what extent has industry been involved in the establishment of your user fee proposal?

Dr. HOUSTON. We have developed the user fee study as a USDA exercise. We have made it available within the last 6 weeks to the public for their review. There has been no consultation up to this point.

And, obviously, before we can go with it, we have to obtain legal authority, and then we would have to go through rulemaking, in which the public would be involved.

PLANT INSPECTORS

Senator COCHRAN. In the inspection of plants, I know that inspectors are sometimes assigned to a certain plant for an extended period of time, and I wonder whether or not this is a problem.

Does difficulty develop with camaraderie that necessarily is going to ensue between the inspector and the inspected?

How does the Service go about trying to protect the integrity of the system? What techniques or procedures are in place to try to help deal with this problem, if it is a problem?

Dr. HOUSTON. Well, it can be a problem, but it is not a significant problem, in my mind.

We ordinarily try to rotate inspectors between plants every 6 months, every 4 months, or for whatever period. We have a contract with the union to do so.

In some cases, rotation is not practiced, especially in the poultry industry. But where it is practiced, it is a deterrent to the kind of thing that you are talking about.

With respect to the poultry industry, many of the positions we are talking about are online positions conducting individual postmortem examinations of birds, and there we have an individual, as the inspector in charge, who does most of the dealings with the plant, and that tends to minimize some of the problems that you raise.

It can certainly occur, the kinds of problems you describe, but I think that we have supervisory practices in place, as well as other practices which tend to minimize those problems.

Nevertheless, they can and do occasionally arise.

ADDITIONAL INSPECTORS NEEDED

Senator COCHRAN. You mentioned in your statement that there had been requests made of the Agency to provide inspectors—I think you said 24—was that additional inspectors?

Dr. HOUSTON. Twenty-four plants, Mr. Chairman.

Senator COCHRAN. Twenty-four plants?

Dr. HOUSTON. Yes, sir.

Senator COCHRAN. They had requested additional inspectors?

I presume some of these are new plants.

Dr. HOUSTON. Some are new, and some represent expansions of existing operations, such as second shifts.

Senator COCHRAN. What is the consequence of the failure to provide those inspectors?

Dr. HOUSTON. Well, it means that a plant cannot operate if an inspector is not available, because they would not be able to place the mark of inspection on that product, and it would not be eligible to enter commerce.

So, it means that if inspectors are not available, plants cannot operate.

PROPOSED SUPPLEMENTAL APPROPRIATION

Senator COCHRAN. Is this justification for additional funds being made available to the Agency in the supplemental appropriations bill that is now before the Congress?

Dr. HOUSTON. We believe it is.

As we mentioned earlier, we are going to be able to take care of some of our problems, but not all of them. Obviously, we cannot lift the furlough, as Mr. Tracy said, and we cannot go back and fill all of the vacancies that accrued during the first half of the fiscal year, and those still represent serious problems to us.

Senator COCHRAN. How much money are we talking about? I think the supplemental now pending contains $3.7 million.

Dr. HOUSTON. That supplemental was earmarked only for expanding operations. If we want to take care of that problem, as well as fill some of the vacancies that now exist, some of the most critical vacancies, and lift that furlough, it will take about $4.3 to $4.5 million.

Senator COCHRAN. Have you submitted a request to OMB for approval of that?

Dr. HOUSTON. We have not made a specific request for that amount. We have had considerable discussions with OMB over the problems that the Food Safety and Inspection Service is undergoing.

Senator COCHRAN. One problem that we have is a Senate rule which was called for under the Deficit Reduction Act amendment, the so-called Gramm-Rudman-Hollings amendment. Under the Senate rules, as I understand it, it is not in order for a supplemental appropriation to be considered unless there is a corresponding reduction made in spending in some other area of the budget, or unless a proposal for revenues is included at the same time.

So we have a new set of procedures and a new law that inhibits the ability of the Senate—I am told that it does not really apply to the House like that—to take up a proposal of that kind.

Do you have any suggestion as to where we make a corresponding reduction in spending?

Mr. TRACY. Mr. Chairman, I am aware of the Secretary's great interest in attempting to resolve the problems that FSIS has, and I am confident that should there be a need to find an offset within the Department, he will do so. As you know, that is very difficult, but if we do have the opportunity to do that, I am sure we will be able to find an offset somewhere, because this is a very, very high priority in the Secretary's mind.

COMMENTS OF SENATOR CHILES

Senator COCHRAN. Let me yield at this time to Senator Chiles of Florida. I understand Senator Harkin has no objection to my yielding to him out of turn for some comments and questions.

Senator CHILES. Mr. Chairman, I thank you. I had some questions in regard to APHIS, and the Central American Medfly Eradication Program. I will just submit those for the record, if you will allow me to.

Senator COCHRAN. That is fine. We certainly know that the Secretary will assure that those are reviewed quickly and answers furnished to the committee in a timely way; and we appreciate your contribution to the hearing.

I am now going to yield to the Senator from Iowa, who is here, and I know who has questions—maybe even comments. [Laughter.]

Senator Harkin.

COMMENTS OF SENATOR HARKIN

Senator HARKIN. The chairman has been associated with me long enough; he knows I am going to make some comments.

Thank you, Mr. Chairman.

Dr. Houston, it seems to me that the Meat Inspection Act requires you, requires the Department of Agriculture, to provide inspection services when a business entity starts up a production facility for the slaughter of animals, red meat or poultry—we do not have it for fish—it requires you to provide that inspection. Is that not true?

Dr. HOUSTON. Well, that is not the only statute that I have to obey. I also have to obey the Antideficiency Act.

Senator HARKIN. The what?

Dr. HOUSTON. The Antideficiency Act.

Senator HARKIN. What is the Antideficiency Act?

Dr. HOUSTON. That is the act that says that if I overspend or obligate money which is not appropriated, I am subject to prosecution; and if I go beyond the bounds of the laws of Congress in appropriating money to the Food Safety and Inspection Service and hire employees for which no money is available, I am subject to certain disciplinary actions.

So, I have to live with that. I likewise have to live with the Gramm-Rudman-Hollings law, which sequestered certain moneys, and I have to make adjustments and changes in the Agency's operating practices to comply with that.

So, I have basically three laws I have to dance around in carrying out our mission.

COURT CASES REGARDING USDA RESPONSIBILITIES

Senator HARKIN. All right, are there any court cases that have been decided that give an indication as to whether or not you have to provide inspection services to a plant, if they so request it?

Dr. HOUSTON. I am not aware of any, Senator.

Senator HARKIN. Can some of your people find out if there are any court cases which have been decided which clearly spell out the obligation that the Department has?

Dr. HOUSTON. Certainly.

[The information follows:]

The issue of whether USDA must provide inspection upon request for new lines, shifts, or plants, when sufficient funds have not been appropriated for that purpose, has not occurred in the past and, therefore, the legality of the action has not been tested in the courts.

INSPECTION IN NEW PLANTS

Senator HARKIN. Second, if a plant starts up, expands a production line, and requests inspectors, I understand that you have written letters to some saying that they cannot get it.

Well, obviously, if they cannot get it, then they cannot sell. It seems to me what you are saying—and I should not say you—but what the Government is saying to a business person is, "I am sorry; you cannot expand your business, even though there may be a legitimate need for it." They have invested money in it; and yet, if they cannot get inspection, they cannot do business.

Is that what the Government is saying to these people?

Dr. HOUSTON. Well, that is the horns of the dilemma that we are on. If we let those companies—we cannot let those companies go and operate without inspection, or they would be violating the law then, as well as us.

And so we are on the horns of that dilemma.

Another choice, of course, is to change the standards of the inspection program, dilute our resources, and tear down the infrastructure of the program, but then public confidence is lost in the whole process. I am reluctant to do that. And I think most Members of Congress who we have talked to have said the same thing; they do not want to see the standards changed.

Senator HARKIN. I think that you will find unanimous agreement on both sides here on that issue.

Dr. Houston, as the Chairman pointed out, that if you make the request for money, that under Gramm-Rudman-Hollings that you have to show a corresponding savings somewhere else.

Now, you know, you and I have been through this before in the past on this issue of less-than-continuous inspection. I do not know of anyone who wants to reduce the inspection that we have at the point of slaughter; but we do know that we can have a less-than-continuous inspection at the processing end. And I know that you have been involved—and I do not want to put words in your mouth—but have been supportive of that.

Why can't you get some savings there? Why can't you go ahead and implement some less-than-continuous inspection on the processing line, and come up with some savings there so that we can have the necessary inspectors that we need at the point of slaughter so that these plants can go ahead and operate?

Dr. HOUSTON. Yes. Well, at the present time, the law does not permit that kind of inspection. It is going to have to be changed, and for the last several years, the Department has sent to the Congress a legislative package that would provide discretionary authority to the Secretary.

Senator HARKIN. But you and I both know what the hangup is on that, on the summary withdrawal issue.

Dr. HOUSTON. Well, we are going to have hearings on the 29th on the House side, on that issue, and perhaps out of that, something can be worked out.

That is a problem, obviously, because the administration's package does have the enforcement provisions attached to it.

COMPARISON OF RED MEAT AND POULTRY INSPECTION LAWS

Senator HARKIN. Is it not true that there is a difference between the law as it applies to red meat, and the law as it applies to poultry, in this regard?

Dr. HOUSTON. Yes; there is much greater discretion with respect to the Poultry Products Inspection Act.

Senator HARKIN. That is right. Under the Poultry Products Inspection Act of 1958 or 1957, something like that.

Dr. HOUSTON. Yes.

Senator HARKIN. You are allowed administratively, are you not, to go ahead and provide for less-than-continuous inspection in the processing end?

Dr. HOUSTON. That is correct.

Senator HARKIN. Then, why is that not done? There is no law prohibiting you from doing that.

Dr. HOUSTON. Well, in the past, the Department has taken a position that the industry should be regulated in a uniform fashion, both meat and poultry, that there should not be any type of difference in the approach.

Senator HARKIN. OK.

Dr. HOUSTON. The other thing is that the vast majority of resources in processing inspection are in the red meat side.

Senator HARKIN. In the what?

Dr. HOUSTON. They are in the red meat side of the house. The red meat industry has the greatest amount of processing going on, and, therefore, if we are going to make changes, that is where we are going to have to make them in order to secure savings.

Senator HARKIN. OK.

Now, you just told me you are on the horns of the dilemma because of three laws that you have to operate under. The law allows you to make changes in the poultry inspection on the processing end. And you are saying that the administration has taken the position of not having a difference in the poultry processing as opposed to red meat processing.

Now, here is a case where there is no law prohibiting you. You can do something, which is supported, I think, by—not only by the industry, but I think by those of us in charge of ensuring compliance with the Wholesome Meat Act and other acts, Poultry Products Inspection Act, that I would think that you would find no problem there of streamlining the inspection services in the poultry end.

SAVINGS FROM CHANGES IN POULTRY PROCESSING INSPECTIONS

Have you done any kind of an estimate of how much savings might be accomplished by doing that?

Dr. HOUSTON. Right now, we have got 25 poultry processing plants——

Senator HARKIN. Twenty-five processing plants.

Dr. HOUSTON [continuing]. That are under our total quality control program, that we are looking at to determine if we could do what you are suggesting.

Senator HARKIN. Those are just the ones that are under the total quality control?

Dr. HOUSTON. Yes, sir.

Senator HARKIN. Now, how about the other ones? How many other ones are there that——

Dr. HOUSTON. I cannot give you a figure offhand as to how many others might qualify.

The thing is that many of them are processing both red meat and poultry. The red meat and poultry processing industries are becoming more and more integrated every day; and where they do both, we run into this dilemma again of continuous inspection required for red meat, which gives you little opportunity to put in some kind of discretionary program for the poultry that might be processed.

In fact, we are seeing more and more processed products containing both red meat and poultry.

Senator HARKIN. Mr. Chairman, I would just hope that the Department could give us some estimates on the kind of money savings they could get by administratively implementing less-than-continuous inspection on poultry processing, to see if we might not pick up some savings there that would offset the increase you need to keep the inspectors on the slaughtering end.

I do not know. Maybe it is not that much, but maybe it is. I have no idea how much it would be.

Dr. HOUSTON. Senator Harkin, not to belabor the point, but we did eliminate 450 positions in our poultry inspection program at the beginning of this fiscal year by making changes in how we do postmortem inspection at the time of slaughter.

So, we have taken advantage of where we think legitimate changes can be made.

Senator HARKIN. What happened to those positions?

Dr. HOUSTON. We have, for the most part, stopped utilizing about 1,000 part-time people who are on our rolls, and, instead, are using those 450 full-time people who have been freed-up when their positions were abolished.

Senator HARKIN. I have heard rumors, unsubstantiated, but I have heard rumors of inspectors sort of just sitting around, not doing anything. And in this group of inspectors where I have heard reports that they have been—they are still on the payroll; but they are not doing much.

Dr. HOUSTON. Well, we are moving people. We had 450 people, of which 150 are being relocated, and we are in the process of doing that. I can assure you that every person will be in a meaningful job.

Senator HARKIN. Again, I do not mean to lay blame either. Could you have your Department give me some estimate——

Dr. HOUSTON. Oh, certainly.

Senator HARKIN [continuing]. of what kind of savings would be involved if you would administratively go ahead and implement this, which is, as I pointed out, as you know, different than the red meat; and to streamline it on the processing and for poultry, what kind of savings are we talking about?

Dr. HOUSTON. We can certainly do that, but I do not think we should hold the judgment or the opinion here that everyone in the poultry processing industry is capable of operating under some reduced form of inspection.

As you know, you and I have had discussions on this about the variations that we see in the industry we regulate, from the very best to the very worst; and, once we start classifying plants, and grading them and judging them, and saying that this one can be inspected once a week, or once a month, but another one is going to get inspected every day, that gets a lot of people nervous in the industry, because they are always afraid they are the ones who are going to get inspected every day because of their past history.

So there are problems associated with it, but we are not afraid to take those on.

[The information follows:]

There are 24 small establishments which produce processed poultry products under total quality control inspection. These plants would be the first to be considered for less intensive inspector presence. The inspection resources currently needed to inspect these plants total 9.6 staff-years. Assuming that compliance-based inspection would allow a reduction to about one-half of the inspection coverage, we could realize an annual savings of about $130,000 but only $25,000 to $50,000 for the balance of 1986. In future years we would expect more of the current 251 poultry processing establishments to qualify for reduced inspection, resulting in significantly larger savings in those years. Implementation of this program, while offering significant future benefits, would do little to alleviate our current funding and staffing problems.

NEW INSPECTORS

Senator COCHRAN. Can we move around the table? We will come back to you, Senator Harkin.

Senator Andrews.

Senator ANDREWS. Thank you, Mr. Chairman.

Your opening statement said that you have received requests from 24 plants for more inspectors, and you have indicated that through savings within FSIS, you should be able to meet these requests.

Now, I am getting a lot of complaints from meatpackers being turned down for additional inspectors for new plants, for expanded plants. This does not flow with what you just told the committee.

Why am I getting the complaints that they cannot expand their meat processing, when you tell me that you are able to meet the needs for new inspectors?

Dr. HOUSTON. It was only in the last 2 days that we got our accounting data for the first half of the fiscal year, and we could see that many of the cost-savings measures that we put in place are starting to create a small surplus that we can use to hire these additional inspectors that are needed.

Up until this point, we have told the industry we did not have the capability to hire those people. Now, those savings are accruing, and we are going to use them to offset vacancies in the future and to hire some 50 or 60 people throughout the remainder of the year for those 24 plants that are requesting inspection.

Senator ANDREWS. Well, let me nail this down to more specifics.

We all understand that Federal meat inspection is mandatory for any interstate shipment of product.

Now, it occurs to me that you are impacting directly on the ability of a business to operate, and that has a direct impact on those of us who feed livestock.

IMPACT OF DAIRY BUY-OUT

Now, you also say, in your fiscal year 1987 budget that you are going to assume that we are going to increase our exports by 100 million pounds.

Has this taken into account the 400-million-pound buyout?

Now, we are having enough troubles already with the depressing impact on the market of this dairy buyout; and, if all of a sudden, they come up against the crunch of no meat inspector, how in the dickens are we going to handle it?

They say they are already overcrowded; you are allowing only for a 100-million-pound increase, and they come in at 400 million, which is in the bill. The Department of Agriculture is speeding up, they tell us. I just talked to the Secretary. He said they are speeding up this buyout processing to get it out of the country.

Are you confident that you can meet that problem?

Dr. HOUSTON. I think we can by the end of the fiscal year. I am confident that we are going to be able to meet the needs of those new and expanding plants, as well as maintain the level of inspection in existing operations, but for the first half of the fiscal year, it has been very difficult to get down to the point where we could meet the budget cuts that we had to face.

Senator ANDREWS. When you say that for the first half of the fiscal year, it has been difficult; now, suddenly, you say you have got enough; but also the figures you give us are significantly below the figures that the Department of Agriculture tells us are going to have to be involved if we are going to accomplish the provisions in the dairy buyout program.

How can this committee know that that is all handled, and that we are not going to get emergency calls, Mr. Chairman, in the next month or so, saying, "Well, look, we are between a rock and a hard place on this dairy buyout, that we cannot get it processed; we can't get it inspected."

Dr. HOUSTON. I think that with respect to the cattle coming to slaughter as a result of the buyout, we will be able to provide the services to the plants that need it.

IMPACT OF SPENDING CAP

We will have one problem, though, Senator. I do not want to avoid it. There is also a spending cap on the amount of overtime that we can utilize for this fiscal year, as a result of the Gramm-Rudman sequester; and, once we utilize that overtime, we can provide no more service to the industry.

It appears that we will not be able to provide overtime service the last 3 weeks of the fiscal year to the meat and poultry industry. We will have reached our spending cap on overtime.

Senator ANDREWS. Well, let me point out who pays. If you run into overtime, and if you run into short-staffing; if we run into congestion in these processing plants, it is the farmer who pays, because whatever the consumer will pay for beef is then backed up to the farm, and the farmer gets whatever residue is there.

So, if you, as the meat inspection service, hang back and do not have enough people available—and the reports I am getting from the field, my office is getting from the field, is that plant after plant after plant that says we do not have enough inspecting—if they do not; if they have got to shut down and work abnormal hours, if they have got to work longer hours in a given day and pay overtime, that comes out of the farmer's hide, not out of the plant.

How do you justify that on the basis of the cost crunch farmers are now involved in?

Dr. HOUSTON. Mr. Chairman, I have to operate within the funds that are available to me, and the people that I have. I am going to do the best I can to provide that service to the industry and to the public.

Senator ANDREWS. Now, you are getting down to the crux of my question.

You say, "We've got to operate within the funds available."

This committee is the committee that gives you these funds. You have never been shorted from this committee, have you?

Dr. HOUSTON. No, sir.

Senator ANDREWS. And what we are trying to ascertain today is how much funding you need so this crunch that takes it out of the farmer's hide does not happen?

NEED FOR ADDITIONAL FUNDS

Are you absolutely certain that the funds that you have in this request are going to handle the additional dairy buyout which are not specified in your budget request, and do the other things that we are finding are being shorted out in the field?

Dr. HOUSTON. In an answer to an earlier question, I mentioned that we could lift the furlough on our employees and fill many of the vacancies that were created earlier this year, with an additional $4.5 million for this fiscal year.

Senator ANDREWS. But you are not going to pass those charges on to the farmer?

Dr. HOUSTON. No, sir.

Senator ANDREWS. And you are going to have an adequate amount of people out there in the field?

Dr. HOUSTON. With the amount, with the level of funding——

Senator ANDREWS. With the level of funding.

VACANCIES

So, the statements that we are getting from meat-packing plants are, in your words, inoperational and you have taken care that this is going to be handled in an efficient way?

Dr. HOUSTON. We are going to start hiring right away, and we are going to fill those additional vacancies that represent expansions and new plants. I am still carrying almost 200 critical vacancies which I cannot fill; and that is going to have some adverse impacts. So, I do not want to tell you that everything is going to run very smoothly, because there will be occasions when packers may have to work overtime because there are not enough inspectors, but we are not going to be denying service to new or expanding operations.

Senator ANDREWS. Are you advertising for additional veterinarians to fill these vacancies?

You know, they might hang back and not want to go with USDA because they have heard time after time after time that you are cutting back.

You cannot get a professional person to join your ranks if they figure they will be on board for a couple or 3 months and then be sacked.

Dr. HOUSTON. That is a difficult problem. Recruiting veterinarians is a difficulty for us.

Senator ANDREWS. But you are assuring them of permanent positions?

Dr. HOUSTON. Yes, sir.

Senator ANDREWS. When you recruit them?

Dr. HOUSTON. Yes, sir.

Senator ANDREWS. And, Mr. Chairman, one final thing.

KEEP CONGRESS INFORMED

Will you assure this subcommittee that, if you see you are getting into a crunch where you do not have enough inspectors to take care of this problem, and that might possibly load back on already stressed farmer-feeders, that you will notify this subcommittee in plenty of time so we can take responsible action through a supplemental bill or something else to make sure that what we have just discussed now actually works out under field conditions?

Dr. HOUSTON. I will do that, and I will prepare reports and bring them to the committee every month.

Senator ANDREWS. Thank you very much, Mr. Chairman.

Senator COCHRAN. Thank you, Senator.

Senator Burdick.

Senator BURDICK. Thank you, Mr. Chairman.

RED MEAT PURCHASE

Mr. Handley, in your testimony, you cite the dairy herd buyout program which was passed in the new farm bill.

That program requires the purchase of 400 million pounds of red meat to offset the adverse effect of the sale and slaughter of the dairy cows.

What is your role in the program?

Mr. HANDLEY. Yes, Senator. The role of the Agricultural Marketing Service Livestock and Seed Division is to request bids, and to handle the purchasing of the 400 million pounds of meat that we are buying.

Senator BURDICK. As you know, the beef market has plummeted in the last several weeks because of the dairy program.

In North Dakota, the cattlemen tell me that the market has dropped by as much as $10. The problem seems to be that USDA is not buying enough red meat fast enough to stabilize the market.

Last week, in the Senate, we passed a resolution saying that you ought to beef up your purchases.

What are you doing about the problem?

Mr. HANDLEY. We are trying to purchase, in the first 6-month period of the whole herd buyout program, two-thirds of the amount of beef that will be purchased. Domestically, that would be about 133 million pounds, and about 133 million pounds for export.

Senator BURDICK. It seems to me that the more you buy and the faster you buy it might stabilize this market a little bit better?

Mr. HANDLEY. Yes, sir.

That is what we are hoping for.

Senator BURDICK. You buy for school lunch and what else?

Mr. HANDLEY. Under this particular program, we are buying for schools, charitable institutions, and other such outlets.

What is going out of the country is going out in several different forms. They are buying cows in some instances, and processed products in others.

Senator BURDICK. Well, outside of buying up more of these meats, what else can you do to help?

Mr. HANDLEY. Well, that has certainly been the central part of our effort. We are trying to buy some additional meat products. That is about the extent of the help I think we can offer.

Mr. TRACY. Senator, if I could just jump in in Mr. Handley's defense.

ROLES OF FAS AND AMS

There are two parts of the purchase program referred to. On the export side, the sale and disposition of the product has to be handled by the Foreign Agricultural Service. Mr. Handley and his agency simply provide the service of buying that product when they request it.

On the domestic side, they have a little bit more involved role. They work very closely with the Food and Nutrition Service in preparing to buy this product for the school lunch, elderly feeding, and child nutrition programs, and similar programs.

The purchase program was announced the very same day that the whole herd dairy buyout was announced. AMS is prepared to purchase two-thirds of that 200 million pounds for domestic consumption within the first 6-month period. In my opinion, AMS has acted very responsibly.

There is a limit to how much the school lunch programs and the child nutrition programs can absorb. We are going to press that limit as far as we can in the early part of the program, and, if necessary, even do some storage; but we are going to make very substantial buys. We are already out for bid on a number of products—on canned beef, on frozen beef. Recently we went out for bids on hams, so we will be starting to accept those bids in the very, very near future, and we hope to have it offered at such prices that we can accept substantial bids in the early part of the program and get as much purchased just as soon as we can.

Senator BURDICK. Well, I do not have to tell you that we are getting a lot of angry mail about the drop in the price of meat, as you know.

Anything your Department can do to step up those purchases, or do anything, will be greatly appreciated out there, because it is a real problem. We will kind of keep an eye on you.

Senator COCHRAN. Senator Harkin.

NEED FOR ADDITIONAL FUNDS

Senator HARKIN. Thank you, Mr. Chairman.

Just one followup question on what the Senator from North Dakota, together with what Senator Andrews, was asking.

You said you needed $4.5 million in the supplemental?

Dr. HOUSTON. That amount would permit us to lift the 3-day furlough——

Senator HARKIN. Yes.

Dr. HOUSTON. Second, we could fill the vacancies that have been created through the first half of the fiscal year and put us back into a much better position to service the industry, and with what I already mentioned today, would rectify most of our problems.

Senator HARKIN. The House had what? Was it $3.7 million?

Dr. HOUSTON. $3.7 million, but that was earmarked early in the year for new and expanding services.

That $3.7 million, when it was first proposed, was a good figure; but, as you go through the year, that figure drops, because there is less of a year to annualize salaries.

Senator HARKIN. Let me ask you this: Is that—would that be subject to Gramm-Rudman, $4.5 million?

Senator ANDREWS. Not if it is in addition, if it is a supplemental. If it is base funding, it is subject to Gramm-Rudman; but if it is a specific supplemental, because of meeting the commitment that has to be met in this dairy herd buyout, it would not be subject to Gramm-Rudman, as I understand it.

Is that not essentially true, Mr. Chairman?

Senator COCHRAN. I do not agree, but we can debate this another time.

Senator HARKIN. But this is not to meet the dairy herd buyout, the $4.5 million, but what it would do is put us in the position where we could respond to the need for extra slaughter capacity that is going to occur as a result of the dairy buyout.

Senator ANDREWS. If Gramm-Rudman is going to hold back what you need to do to move this beef, then that is just another reason why we have got to get on our horse and get the Budget Committee package approved so that we can get out from under this impossibly ridiculous thing that is called Gramm-Rudman, because if we are sitting here, and we find that we cannot move beef that we are supposed to be moving, and farm prices are dropping by 20 percent, and we are prohibited by Gramm-Rudman, it shows how totally wrongheaded, how totally idiotic Gramm-Rudman is when a committee of the Congress cannot recognize an immediate problem and respond to it.

But let me, again, assure Dr. Houston that when he gives this subcommittee the information that he needs more in order to meet this challenge, we will find a way of getting around Gramm-Rudman.

Senator COCHRAN. Senator Harkin.

Senator HARKIN. Thank you, Mr. Chairman.

No; I do not have anything else. I just wanted to get in on the discussion on the $4.5 million and the $3.7 million and find out what you thought about whether or not the $4.5 million was subject to Gramm-Rudman and, again, I do not want to debate that.

OVERTIME INSPECTION

The last thing I had was the overtime inspection. Again, I just want to make it clear that you said by September it would be necessary to deny overtime inspection even though this is paid for by the plant.

The reason I understand for this is that OMB insists that FSIS not exceed their overall budget ceiling, and requires that income from overtime inspections count toward their budget ceiling.

Is that correct?

Dr. HOUSTON. Yes, sir.

In essence, there is a spending cap, and once we collect that overtime, and pay it out to our employees, and once we reach that cap, we cannot surpass it.

Mr. TRACY. May I just interject.

My understanding is that under the Gramm-Rudman-Hollings Act, we are required to make those cuts in each individually specified item of the budget. In this case, overtime inspection is a separately identified item, and so we have been—we have had to cut that back from the projected $39-plus million to $37-plus million; and that is the basis on which Dr. Houston says we would have to deny overtime service during the last 2 or 3 weeks of the fiscal year.

Senator HARKIN. But I do not understand how that can be when it is paid for by the plant.

Mr. TRACY. Sir, that is similar to problems that Mr. Handley has in AMS, where in those cases the service is entirely voluntary.

Of course, overtime service is also voluntary, but you could reach the situation where you have people standing in line with checks in hand to get a service that they need from us, and we are unable to provide it because of the effect of having user fee programs included under the Gramm-Rudman cuts in spite of the fact that it has no effect on the budget deficit.

Senator HARKIN. Well, I do not know——

Mr. TRACY. I agree with you.

Senator HARKIN. That is just asinine.

Thank you very much, Mr. Chairman.

Senator COCHRAN. Thank you, Senator Harkin.

BOLL WEEVIL

Mr. Hawkins, you may have felt that we have forgotten about you. [Laughter.]

Mr. HAWKINS. It did occur to me, sir.

Senator COCHRAN. I haven't forgotten about you. Once again, I notice that the budget for the Animal and Plant Health Inspection Service includes a proposal to reduce substantially the amount being spent for the boll weevil program. Congress has funded, as you know, over the past few years an eradication program in North and South Carolina, and one in California, Arizona, and Mexico. There has also been funded a boll weevil control program in Texas. For the record, I hope you will be able to provide us a report on the status of each of those programs.

The budget notes also state that the previously proposed Federal boll weevil quarantine for the Southeast—North Carolina and South Carolina—and the Southwest—California and Arizona areas—will not be implemented.

It seems that a quarantine would prevent the reinfestation in those States and would protect the Federal investment in its eradication programs.

I would like for you also to include in your report an observation as to whether or not my statement is correct, and provide some explanation of why the quarantine will not be implemented.

[The information follows:]

BOLL WEEVIL PROGRAM STATUS

SOUTHEAST BOLL WEEVIL PROGRAM

Operations in North Carolina and South Carolina began in fiscal year 1983. This program was originally projected to be a 3-year undertaking, with a buffer zone to be established at the Georgia-South Carolina border at program conclusion. As a result of several mild winters which aided weevil overwintering, additional treatments have proven necessary and the original timetable has been extended. It now appears that spot treatments of some areas will be necessary in fiscal year 1986 to complete eradication and set up the containment area. Fall diapause treatments for the 1984 crop season were completed from September to November. The 1985 crop season included 232,000 acres of cotton. Of this total, only 1,711 acres in the eradication area required treatment because of exposure to weevils. The first evidence of weevil infestation was detected in July, and by the end of September, 215 fields were under treatment. Treatments continued last fall until arrival of a killing frost in mid-November in North Carolina and South Carolina. During the fall, less than 3 percent of cotton acreage was under a regular spray cycle in the expanded eradication area. Extensive migration from Georgia necessitated more treatments in that area than were applied last season.

Referenda for program expansion passed in Alabama but failed by a narrow margin in Georgia. In February, the State of Georgia authorized interest-free producer loans for the first year of the program operation. Efforts continue toward passage of authorizing referenda in Florida and Georgia for next season. Georgia is currently planning to hold a referendum in May, with results to be tabulated in June. No date has been set for a referendum in Florida.

SOUTHWEST BOLL WEEVIL PROGRAM

The Department initiated operations in October 1984 in an area including southern California, western Arizona, and northern Mexico. Of the 214,444 acres of cotton in the program, approximately 100,000 acres required treatment in the spring. As of the end of September, spring and midseason treatments had contained weevil populations to approximately 15,000 acres. Impact of the program's first year could be seen last fall in weevil counts that were 10 to 50 times higher in areas outside the project. Counts so far this spring are significantly lower throughout the project area compared to last year at this time.

The National Cotton Council has requested a plan for expansion of the project eastward into the remaining infested portions of Arizona. Growers are funding a trapping program this coming season to better characterize the infestation in this area prior to developments of the plan.

HIGH PLAINS BOLL WEEVIL PROGRAM

The goal of the High Plains program, a cooperative APHIS-grower effort, is to prevent the spread of boll weevil to noninfested cotton-producing areas of west Texas. Diapause treatments generally span fiscal years, beginning in mid-September and continuing into November. In fiscal year 1984, 120,250 aggregate acres were treated, compared to 409,376 in fiscal year 1984. This indicated a decline in boll weevil populations through the early part of fiscal year 1985. In late fiscal year 1985, as conditions favorable to cotton production became evident, this downward trend reversed with populations beginning to increase by the end of the fiscal year. Weevil populations are forecasted to be higher than normal in the spring of 1986, due to the effects of an unusually mild winter, allowing overwintering of large numbers of weevils.

BOLL WEEVIL QUARANTINE

We intend to establish the proposed boll weevil quarantine for the Southeast in the spring of 1986, after publication in the Federal Register and receipt of comments. We will, however, leave enforcement of the quarantine to the States.

IMPORTED FIRE ANT

Senator COCHRAN. The imported fire ant problem is a very serious concern, in my part of the country—not just in my State, but the entire region. The budget proposes to completely eliminate funding for the fire ant control program. I would like to know what you foresee as a consequence of that action if Congress goes along with your recommendation.

Mr. HAWKINS. Mr. Chairman, for the immediate future, it would have very little consequence. We feel that until research develops a more effective tool for eradication or control of the fire ant problem, that the Federal Government's role should be curtailed. That does not mean that at some point in time when research does produce an effective tool, that we might not need to get back into it. But at this time, we do not think that it is a good use of Federal funds.

BRUCELLOSIS

Senator COCHRAN. The brucellosis program, as you observed in your comments at the beginning of the hearing, is one that also is very important in my State and region.

The budget proposes to reduce the Federal involvement in this program over the next 4 years, eventually to the point of surveillance only, if I understand the proposal correctly.

In your budget summary, it says that the objective is to eliminate high levels of the disease in problem States by 1991.

Does this mean that we have backed away from the goal of eradicating brucellosis, and does this mean that the future Federal role will be one of surveillance only?

Mr. HAWKINS. No, sir; we are not backing away from the ultimate goal of eradication. What it does mean, Mr. Chairman, is that we are shifting some areas of responsibility so that we can better accomplish that goal. I believe that as long as the Federal Government has been in a brucellosis eradication effort, that many States and the industry have perceived it to be a Federal program. They sometimes view the program, rather than the diseases, as the obstacle.

We believe that by setting a time limit on Federal involvement, States and industry will make the commitment to get on with the task of eradicating brucellosis. I believe that the message has been received, and we are now seeing better compliance in the brucellosis effort than we have before.

Senator COCHRAN. Does this mean then, that if we fund the eradication program at the current level of spending that we will not really accelerate eradication? That there will be other factors that would end up retarding the progress? Is that what you are saying?

Mr. HAWKINS. There are many factors involved in a successful program, including funding.

Senator COCHRAN. Well, you are proposing to reduce the funding, saying that there are other ways to solve the problem.

If we ignore your suggestion and provide funding at a higher level, will that be wasted money?

Will it not, in fact, accelerate the eradication of disease if we do more than the administration is requesting?

Mr. HAWKINS. Senator, I believe that the amount of funding that we have requested in our 1987 budget is sufficient to stay on course for the eradication of brucellosis.

ANIMAL WELFARE

Senator COCHRAN. We probably get more mail and calls on the subject of animal welfare than any other one subject, as a subcommittee—except maybe soil conservation, or the Extension Service. It is a matter of concern to a lot of people that the Federal Government is not doing enough to monitor and enforce rules and regulations with respect to animal welfare.

Some feel that the Department of Agriculture does not have its heart in this program, that it really is something they wish would go away, or they did not have anything to do with.

Some think that it ought to be left up to the States, or industry groups, or charitable organizations or others. But there is the Animal Welfare Act, and it provides that there shall be enforcement.

What do you think of the problem as far as the Department of Agriculture is concerned? What do you suggest we tell these folks who are calling and writing us?

Mr. HAWKINS. Well, Mr. Chairman, I can appreciate the amount of mail that you are getting because of the concern in parts of our society. We get a lot of mail as well.

As I mentioned earlier, under today's spending restrictions we must prioritize our needs. Animal welfare is one of the programs that does not reach the highest level of priority. It is an area in which the States and concerned groups can effectively monitor the welfare of the affected species.

We feel that it is not a high priority role for the Federal Government and that is the reason that we propose not to fund it.

SUBMITTED QUESTIONS

Senator COCHRAN. There are other areas of interest to me and other members of the subcommittee that come under the jurisdiction of APHIS and are the subject of the budget request, such as the screwworm program—you mentioned that in your testimony; animal damage control; grasshoppers; citrus canker; and avian influenza. I have questions on some of these subjects, and rather than take up the time of others, I am going to just submit those and ask that you respond in writing.

I also have some additional questions for the Food Safety and Inspection Service and the Agricultural Marketing Service, which I did not ask. But we do need responses so that we can have a complete record, and make decisions about the funding levels.

[The following questions were not asked at the hearing but were submitted for response for the record:]

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

GRASSHOPPER

Question: In your explanatory notes, you indicate that "Congressional action in the 1985 farm bill ... preclude(s) the need for additional control funds in FY 1987. Please explain.

Answer: The 1985 Farm Bill requires the Department of the Interior to reimburse APHIS for the cost of treating lands under its jurisdiction should funds available to APHIS for this purpose be fully obligated. Also, Congress has provided in excess of $15 million to APHIS in a no-year appropriation which is to be used exclusively for grasshopper control. We hope the carry-over from this fund together with the Department of the Interior's contribution will be adequate to meet our needs in FY 1987.

WITCHWEED

Question: What is the current status of the witchweed eradication program?

Answer: APHIS, in cooperation with State, local, and industry groups, is conducting regulatory and eradication activities to control witchweed in North Carolina and South Carolina. Program activities have effectively prevented pest spread to corn-producing States while eradicating the weed in 15 of 38 originally infested counties in the Carolinas. At the present time, 144,325 acres remain infested and are under quarantine for witchweed. Since the beginning of the program, 281,000 acres have been released from quarantine regulations, including 60,000 in FY 1985.

In FY 1987 APHIS plans to discontinue all regulatory and eradication activities to control witchweed in North Carolina and South Carolina. We believe that the States in cooperation with industry are capable of eradicating witchweed with the current technology and the experience they have gained through years of working in the program.

CHANGE IN PROGRAM LEVELS

Question: In the program, project, and activity report accompanying the March 1 sequestration, I noticed the following: The 1986 levels for Agricultural quarantine inspection, import-export inspection, brucellosis, and screwworm (the biggest APHIS accounts) are shown at levels totaling $122,000 below the amount appropriated for those accounts. Please explain why.

Answer: This reduction results from an appropriation transfer from APHIS to Departmental Administration and the Office of Governmental and Public Affairs for various support activities provided by the Department. The program distribution of the amount transferred is on a prorata basis. These activities were previously funded by APHIS under reimbursable arrangements with Departmental staff offices. They will now be funded by direct appropriation.

Question: There was a transfer from APHIS to Departmental Administration and the Office of Governmental and Public Affairs of $193,000. Please explain this transfer, including where the funds came from and why those programs were chosen.

Answer: The purpose of this transfer was to fund certain Departmental Administration and Office of Governmental and Public Affairs activities on an appropriated basis that were previously financed by reimbursements from APHIS and other departmental agencies. It includes such central administrative activities as the USDA newsletter, TV productions, the Upward Mobility program, central job information, emergency preparations, cost management, judicial examiner services, EEO complaints, and employee health services. Since it would be difficult to determine the exact amount these services were utilized by each APHIS program, this shift was accomplished by a proportionate across-the-board reduction as follows:

	Amount of Transfer
Plant disease and pest control:	
Agricultural quarantine inspection..........	$41,000
International programs......................	2,000
Pest detection.............................	3,000
Plant protection programs:	
Biocontrol................................	3,000
Boll weevil...............................	1,000
Golden nematode...........................	1,000
Grasshopper & Mormon cricket..............	1,000
Gypsy moth................................	4,000
Imported fire ant.........................	--
Mediterranean fruit fly...................	7,000
Mexican fruit fly.........................	1,000
Miscellaneous plant pests.................	1,000
Noxious weeds.............................	--
Pink bollworm.............................	1,000
Witchweed.................................	--
Total, Plant disease and pest control.........	$66,000
Animal disease and pest control:	
Animal disease detection....................	$ 2,000
Animal health compliance and enforcement..........................	11,000
Import-export inspection....................	7,000
International programs......................	2,000
Veterinary biologics........................	7,000
Veterinary diagnostics......................	9,000
Animal health programs:	
Brucellosis...............................	48,000
Cattle ticks..............................	5,000
Foot-and-mouth disease (Darien Gap)......	2,000
Miscellaneous animal diseases............	2,000
National poultry improvement plan........	--
Poultry diseases..........................	--
Pseudorabies..............................	--
Screwworm.................................	26,000
Swine health protection...................	3,000
Tuberculosis eradication..................	3,000

Animal welfare	--
Horse protection	--
Total, Animal disease and pest control	$127,000
Grand total	$193,000

VARROA MITE

Question: Last year, you testified that APHIS has a "contingency plan for the varroa mite". Could you explain, briefly, those plans?

Answer: APHIS, in cooperation with organizations and State agencies responsible for the inspection and certification of bees, has implemented a nationwide survey of locations susceptible to the presence of the varroa mite. In addition we have developed, in consultation with the States and industry, a formal action plan to be implemented in the event an infestation of the pest is detected. The plan prescribes a coordinated series of actions primarily consisting of surveillance, regulatory, and eradication/control procedures aimed at eliminating any threat posed by varroa mites to the domestic bee population. While we would expect any infestation to exhibit characteristics that may not have been anticipated, procedures are in place to involve the research community, industry organizations, and State regulatory agencies in our efforts to accomplish eradication.

Question: What efforts are underway to prevent the varroa mite from infesting the United States?

Answer: We are undertaking several important activities designed to minimize the threat of an infestation in this country. All ships entering at U.S. ports-of-entry are inspected for the presence of bees which are hosts of the varroa mite. Especially close scrutiny is given to ships originating from South America and transiting the Panama Canal to ensure that Africanized honey bees, with a high probability of being infested with the mite, do not make entry into this country. Every colony of bees intercepted and killed from aboard ships is analyzed for the presence of varroa mites and, if mites are found, intensive surveys are conducted along the ship's entire U.S. route. Finally, APHIS enforces laws which prohibit the importation of bees into the United States except under strict requirements.

IMPORTED FIRE ANTS

Question: The explanatory notes indicate that no acres were treated for fire ants in 1985. Please explain why.

Answer: In FY 1985, we did not provide funding for fire ant treatments due to lack of cooperator interest in the cost sharing program. Cooperator enthusiasm for the program was dampened by the lack of an effective, wide-scale control agent.

Question: There are some drastic discrepancies between this year's explanatory notes and last year's, all dealing with "environmental monitoring and methods development" for imported fire ants. Last year, you estimated that 20 sites would be monitored in fiscal year 1985, and this year, you show that only 4 sites were monitored; last year, you indicated that 3 test plots would be conducted in 1985, and this year you show that 42 were conducted; and last year, the explanatory notes, as well as oral testimony, showed that only three alternative chemicals/materials would be screened, and this year, the notes show that 12 were screened. Please explain these discrepancies.

Answer: We based our initial FY 1985 estimate of 20 sites monitored on the assumption that a fire ant control program would take place in FY 1985. The lack of a control program drastically reduced our need for site monitoring; thus, only four research sites were monitored.

The discrepancy between the number of actual and estimated test plots conducted was due to the test plot requirements for evaluation of individual control agents. By way of explanation, a test plot can be as small as a single fire ant mound or as large as a 100-acre plot. One agent may need to be applied to a number of small test plots while another may require only a few large plots. In FY 1985, the control agents required a greater number of testing plots than we originally estimated.

To estimate chemicals or materials screened for the following year, we review the scientific literature to look for likely candidates. Once we've made the estimate, we often hear of other promising chemicals or materials and include them in our screening process. This was the case in FY 1985.

Question: Why do you feel that the above-mentioned environmental monitoring and methods development activities should not be Federal functions?

Answer: USDA has carried out a cooperative fire ant control program with States and local entities since 1957. During that time, cooperators have developed a significant level of expertise in dealing with fire ant. Because of this, we believe cooperators are capable of conducting environmental monitoring and methods development activities.

SCREWWORM

Question: In 1985, there were 140 cases of screwworm in Mexican States, bordering the United States. How did that happen?

Answer: Although we have not been able to epidemiologically trace the outbreak to its source, we believe that it could have been caused by the transport of animals with undetected infestations through the quarantine zone.

Question: Could a barrier farther south than the current one have prevented that?

Answer: Yes, having a barrier further south would mean that the screwworm was eradicated throughout Mexico, and thus eliminate the risk of infestation due to transport of cattle within the country.

Question: If you are funded at the $28 million level which was requested in the President's budget, what will this do to eradication efforts in the Yucatan Peninsula, Belize, and Guatemala?

Answer: At the $28 million level, it will not be possible to begin eradication efforts in the Yucatan, Belize, and Guatemala.

Question: What is the minimum amount of money with which you can maintain the barrier and at the same time begin to eradicate the remaining areas of Mexico?

Answer: The FY 1986 funding level of $33,008,000 is the minimum amount necessary to both maintain the barrier, and initiate the eradication of screwworm in the remaining areas of Mexico.

Question: How much will it cost to build the plant in Panama?

Answer: The costs for architectural design and engineering would be $1.8 million, and the construction costs are estimated to be $10 million.

Question: Will it have sufficient fly production to also eradicate the Caribbean Basin region?

Answer: A plant with greater production capacity than the one described in the feasibility study would be required to provide sufficient fly production to eradicate both Panama and the Caribbean Islands concurrently, as well as, any outbreak in the freed areas that might occur. If the plant is constructed using funds at the $10 million level, the concurrent eradication of screwworm from Panama and the Caribbean Islands would not be possible. Once the screwworm barrier is established in Panama, however, the new plant could then be used for the eradication of screwworm in the Caribbean Islands.

Question: When would it be built?

Answer: If a decision is made to proceed with the facility, it would take approximately 2 years to complete.

Question: Do we have any indications that the quarantine and dipping stations are more effective than last year?

Answer: We have several indications that the quarantine and dipping stations are more effective this year than last. There have been fewer outbreaks above the barrier this year, more infested animals detected at the dipping stations, and more animals quarantined. The Mexican military uses a lighted tower to better inspect passing vehicles to detect transported animals.

Question: Are you keeping sufficient field inspectors in the north of Mexico to be sure that if we do have an outbreak, it will be detected fairly soon?

Answer: Yes, we are keeping sufficient field inspectors in northern Mexico. Given the success of the program to date, we plan to reduce further the number of inspectors to the minimum that can successfully maintain the barrier and detect outbreaks in northern Mexico - a reduction of 126 inspectors - by the end of FY 1986. In addition we will rely on the local producer organizations for assistance in detection of screwworm outbreaks and tick inspectors and animal health technicians along the U.S.-Mexico border who check for screwworms as part of their normal daily activities.

Question: Concerning a Jamaica Program - what would the cost/million flies be?

Answer: Although no fixed price has been set, we expect that the flies will be sold at the cost of production, about $500 for a million flies.

Question: How long would it take to eradicate the island?

Answer: Screwworm could be eradicated from Jamaica in about 6 months of active sterile fly release.

Question: Is fly security better at the rearing facility in Tuxtla Gutierrez?

Answer: Security is always a problem. However, additional security measures have been taken, including the establishment of a Biological Control Committee which inspects the plant on a weekly basis.

Question: What is the status of the Texas plant, and is the plant continuing to be maintained at the same level?

Answer: Yes, we are continuing to maintain the Texas plant in a ready stand-by state. If necessary, the plant can be ready within 3 days to receive seed pupae from the plant in Mexico and reach a production level of 150 million per week within 2 weeks, which is sufficient to maintain the barrier in Mexico.

Question: Could any of the equipment in the Texas facility be used in the Panama facility?

Answer: A limited number of selected items, such as cages, the irradiator and vacuum pumps, could be used in the Panama facility.

Question: How would a screwworm outbreak in the United States be handled?

Answer: The Agency maintains special task forces in each region to respond to animal health emergencies. In the event of a screwworm outbreak in the U.S., the Agency would activate the appropriate unit, and would begin the immediate importation of sterile flies from Mexico. The Agency would also establish quarantines on animal movement through exposed areas. In responding to the threat, the task force would draw on the technical expertise available in the Mexico program and elsewhere within the Agency. The Agency also has agreements with the military providing for additional support in such areas as maintaining quarantines or providing veterinarians in the event of an emergency.

Question: Are we reducing any operational areas in the joint U.S.-Mexico Commission due to lack of funding which would slow down an eradication effort in Central America, if such a program is authorized and funded?

Answer: The loss of some key personnel, which will occur under the proposed budget, would affect the initiation of an eradication program in Central America.

BOLL WEEVIL

Question: Several States have considered participation in the boll weevil eradication program. Among those are Georgia, Florida, and Alabama. We have not previously funded any program expansion to those States because they had not passed the appropriate referenda which would provide the growers' share of funding. What is the status of those referenda?

Answer: The referendum for program expansion was recently approved by producers in Alabama; however, a similar approval in Georgia failed by a narrow margin. Georgia is currently planning to hold a second referendum in May, with results to be tabulated in June. Although no formal action has yet been taken by Florida, efforts are continuing towards organizing and securing passage of a referendum in that State later this year.

Question: In the past, you indicated that APHIS would contribute 30 percent to properly authorized eradication programs for boll weevils. Assuming the appropriate action is taken by Georgia, Florida, and Alabama, would APHIS participate in the eradication effort?

Answer: If funds are available, we will participate in the eradication program.

Question: I understand that there has been some reluctance on the part of Florida growers to participate. Would the Georgia-Alabama expansion of the program go on without Florida's participation?

Answer: No, for several reasons. First, it would be difficult to protect Georgia and Alabama from reinfestation without eradication of boll weevil in adjacent Florida cotton. In addition, Congressional direction and the language of the proposed Georgia referendum mandate Florida's participation in the program.

Question: We would like for you to provide for the record the following information for the Georgia-Alabama-Florida program, the Texas program, and the California-Arizona-Mexico program:

How many years will funding be necessary to complete the program?

Answer: Once the expanded Southeast program is established, it should take approximately 3-1/2 years to complete boll weevil eradication. If funding is made available, program operations could start in FY 1987. For the Southwest program, eradication efforts should be finished by the end of FY 1987. Both programs would require the maintenance of boll weevil free buffer zones and surveillance of free areas once eradication is achieved. The intent of the High Plains program is containment of the boll weevil to prevent its spread to non-infested cotton-producing areas of West Texas. No eradication effort is planned at this time.

Question: What will be the total cost, and the Federal portion of that cost, for each of those years, should we decide to provide funding?

Answer: We will be happy to provide that information.

Southeast Boll Weevil Eradication Program
(dollars in thousands)

	Total Cost	Federal Portion
FY 1987	$7,765	$5,826
FY 1988	24,346	9,679
FY 1989	13,943	2,917
FY 1990	2,835	988

Southwest Boll Weevil Eradication Program
(dollars in thousands)

	Total Cost	Federal Portion
FY 1987	$3,275	$1,330
FY 1988	2,929	994
FY 1989	2,615	663
FY 1990	2,552	663

The above figures represent both direct field operations costs, which would be shared under the current formula on a 30-percent Federal, 70-percent cooperator basis, and additional Federal costs which are not cost-shared such as capitalized equipment purchases and program direction and support costs.

Question: The eradication programs have been provided with 30 percent Federal funding. The Texas High Plains program, which is a control program rather than eradication, has been provided with 50 percent funding. You are proposing to reduce that to 30 percent. What has been the reasoning in the past for providing a 50 percent Federal share for that program?

Answer: There is no legal basis for using a 50/50 cost distribution formula for the High Plains program. That ratio was adopted initially because it was considered to be most equitable given the nature of the program and its perceived social value. The recent emphasis on deficit reduction requires that we continuously look at all of our programs to be certain that program dollars are used most efficiently. For this reason, we now believe a 30-percent Federal, 70-percent cooperator ratio to be most appropriate. This change would bring the program in line with the Southeast and Southwest boll weevil eradication programs, where APHIS pays 30 percent.

BRUCELLOSIS

Question: Mississippi was "graduated" a few months ago from a Class C status to a Class B status. Under your definition of "high incidence" States, would Mississippi be required to contribute "a greater share of program financing" or does that only apply to Class C States?

Answer: Mississippi's contribution to the brucellosis eradication program could be expected to diminish relative to the reduction of disease incidence in that State. Since this is usually a gradual reduction we would not expect the program requirements and State contribution to be impacted significantly by the change in their brucellosis classification. For example, the number of herd tests may decrease but the amount of surveillance and market testing would remain at approximately the same level.

Question: What is the current status of the eradication program?

Answer: We have made continued progress in the brucellosis eradication program. This is reflected by a reduction in the following brucellosis measures through March 1986: The market cattle incidence reactor rate, from .29 percent in FY 1984 to .21 percent; the number of herds under quarantine, from 4,948 in March 1985 to 3,977 - a reduction of almost 20 percent; and, the number of accumulated infected herds, from 4,432 in March 1985, to 3,313, a reduction of 25 percent. The number of calves vaccinated continues to increase from 8.8 million in FY 1984 to 9.3 million in FY 1985 and 3.3 million through the first quarter of FY 1986.

During FY 1985, seven States improved their brucellosis classifications. Minnesota, Montana, and Wyoming qualified for Class Free status; Georgia, Kansas, and Tennessee qualified for A status; and, Mississippi qualified for B status. Thus far in FY 1986, Nevada qualified for A status and New Jersey and West Virginia will attain Free status upon publication in the Federal Register.

Question: How many States are still ranked as "Class C" States? Class B? Class A? Free?

Answer: As of March 31, 1986, there are 23 States including the Virgin Islands and Washington, D.C., ranked Free, 21 States including Puerto Rico ranked A, 5 States ranked B, and 4 States ranked C.

SCREWWORM

Question: The budget requests $28.4 million to maintain a screwworm biological barrier in southern Mexico. I understand that a recent study by APHIS concluded that it would be feasible to move that barrier to Panama, where the recurring expenses of maintaining the barrier would be considerably lower. Does APHIS have any plans to move that barrier farther southward?

Answer: The FY 1987 budget request does not include funds to move the barrier farther southward. However, APHIS has such plans provided that the funds are made available and that legal authority is obtained by the State Department through diplomatic agreements with each of the Central American countries.

Question: What would be the cost of maintaining that barrier in Panama, as opposed to keeping it in Mexico?

Answer: It would cost $10 million annually to maintain a barrier in Panama, as opposed to a $28.4 million cost to keep the present barrier.

Question: How long would it take to move the barrier to Panama? How much would it cost per year?

Answer: It would require 5 years of active sterile fly drops to move the barrier to Panama. The cost of moving the barrier would be $50 million per year, plus $11.8 million for design and construction of a new fly production facility in Panama.

ANIMAL DAMAGE CONTROL

Question: Last year, in the Continuing Resolution, Congress provided that the Animal Damage Control Program (ADC) was to be transferred to APHIS from the Fish and Wildlife Service. What is the current status of that move?

Answer: We completed the transfer as scheduled on April 1, 1986, and have fully integrated ADC into the APHIS organizational structure. We reached an agreement with the Fish and Wildlife Service on the funds, personnel, property, FTE employment targets, and records transferred. With regards to the funds, the Fish and Wildlife Service has a separate line item in their budget for general administration which covers executive direction, administrative services, and related support services such as GSA rent, FTS, postage, unemployment compensation, etc. The $20 million appropriated to APHIS in FY 1986 does not include any funds for general administration requirements. The Fish and Wildlife Service and Animal and Plant Health Inspection Service agreed that general administration costs for animal damage control total $2 million for FY 1986. The Fish and Wildlife Service agreed to assist in support of these requirements for FY 1986, after which USDA will bear these costs.

Question: What is the purpose of that program?

Answer: The purpose of Animal Damage Control is to prevent agricultural losses due to vertebrate depredation. With this purpose in mind, we are directing our efforts toward controlling mammals to protect livestock, and controlling migratory birds to protect agricultural crops, human health and safety, and residential and industrial facilities. Our ADC research program aids in this effort by assessing the environmental and economic impacts of using certain animal damage control techniques. This provides us with the knowledge and tools to reduce wildlife-induced damage.

Question: The budget proposes a 47-percent cut, based on the Department's plan to consolidate the program's regional structure into APHIS' field structure, as well as reduce other overhead costs. Also included in the explanation of the reduction, the budget states that the Federal role should be reduced. How much of the cut is attributable to reduced overhead, etc., and how much is attributable to a reduced Federal role?

Answer: To achieve the FY 1987 reduction, we will reduce overhead costs by approximately $1 million, and program delivery costs by approximately $9 million.

CITRUS CANKER

Question: If the Committee chooses to fund a citrus canker eradication program for 1987, how much do you estimate the cost to be?

Answer: We estimate the cost of a substantial Federal involvement to range from between $3.5 million and $5.5 million in 1987, depending upon the level of activity and whether or not additional detections of citrus canker occur. The estimate does not include payment of compensation to owners of plants destroyed in the effort to eradicate citrus canker.

GRASSHOPPER

Question: Last year, at the request of the Senator from Idaho, Senator McClure, we included $18 million in our appropriations bill for grasshopper. Will that amount be sufficient for this year?

Answer: We believe so, given the size of the no-year appropriation, together with the 1985 Farm Bill provision which directs the Department of Interior to reimburse APHIS for treatment costs on DOI lands if the APHIS no-year fund availability is exceeded.

Question: You have requested no funding for grasshopper control for next year. If we should decide to fund that program, how much would be necessary?

Answer: It is too early to predict the level of next year's infestation since grasshopper populations are greatly affected by spring weather conditions and the effectiveness of the previous year's control activities. We are hopeful that the carry-over from the no-year appropriation together with the Department of

Interior's contribution, if needed, will be sufficient to meet our needs in FY 1987.

Question: In previous years, the Federal Government has paid all control costs on Federal lands, half on State lands and one-third on private lands. Is that formula to be used in FY 1987? What's the basis, legal or otherwise, for using it?

Answer: Yes, we will use this formula. The cooperator share of control costs is mandated in the authorizing language for the grasshopper control program in the 1985 Farm Bill.

AVIAN INFLUENZA

Question: Earlier this year we held a hearing on avian influenza. What is the status of the avian influenza eradication program?

Answer: APHIS is continuing to support the affected States of New Jersey, New York, Massachusetts, and Pennsylvania by providing laboratory, diagnostic, epidemiological, and technical assistance. We are continuing surveillance in neighboring States and those which are involved in the live bird market industry. We are still finding sporadic isolations of the avian influenza virus. A total of 368,319 birds have been depopulated from 17 flocks as shown in the chart below.

STATE	BIRDS	FLOCKS
Massachusetts	2,700	1
New Jersey	18,479	3
New York	20,000	1
Pennsylvania	327,140	12
TOTAL	368,319	17

There have also been avian influenza virus isolations in numerous live-bird markets, 1 in Connecticut, 12 in New Jersey, 26 in New York, and 1 in Rhode Island.

Question: Will additional funding be necessary this year?

Answer: Thus far this year we have obligated over $400,000 for the avian influenza program. If the outbreak remains at its current level we should be able to cover the costs within our regular appropriation. However, if it should continue to spread or expand to emergency proportions then additional funds may be required.

Question: I had several people tell me that APHIS spent $5.8 million for the enforcement of the Animal Welfare Act. We only appropriated $4.8 million. Could you tell me how much did you spend?

Answer: In FY 1985 we spent $6,214,438 to enforce the Animal Welfare Act.

Question: How much was spent by other agencies, if you know, for enforcement of the Animal Welfare Act?

Answer: APHIS is the only agency authorized to enforce the Animal Welfare Act. To our knowledge no other agency has contributed to this effort.

Question: Is there a basis for claiming that APHIS spent $5.8 million on this effort?

Answer: The higher costs in FY 1985 reflect a greater emphasis on investigating problem facilities and responding to complaints. The program also emphasized the inspection of research facilities and established a task force to evaluate the program's effectiveness in individual States. Our actual spending totaled $6,214,438, which consisted of the original appropriation, a portion of the pay supplemental Congress provided later in the year, and funds redirected from other programs.

QUESTIONS SUBMITTED BY SENATOR SPECTER

AVIAN INFLUENZA

Question: Are any funds available for avian influenza control efforts in the FY 1987 budget?

Answer: No funds are set aside for avian influenza control as a line item. However, there are funds available for diagnostic, epidemiological, laboratory, and technical assistance within the APHIS FY 1987 budget request which could be used for limited outbreaks.

Question: What resources would be necessary to ensure that avian influenza is controlled?

Answer: We feel that the best approach to avian influenza is disease prevention through improved biosecurity practices and active surveillance by States before birds move in interstate commerce. The FY 1987 budget request includes resources to assist the States and industry in this effort with epidemiological, diagnostic, and technical assistance. By working together, we can maintain a climate of prevention which will keep avian influenza out of our poultry industry and thereby alleviate the need for an avian influenza control/eradication program.

Question: Does APHIS have contingency funds available to cover emergency animal and plant health threats?

Answer: The FY 1987 budget request includes $2,982,000 for contingencies which will cover emergency animal and plant health threats. The resources are available for threats which cannot be handled within the animal and plant disease and pest control appropriations.

Question: Are funds available anywhere in USDA to handle unexpected avian influenza outbreaks?

Answer: There are several funding sources available within USDA to handle unexpected avian influenza outbreaks. The animal disease and pest control appropriation includes funds for diagnostic, epidemiological, and technical assistance. If more funds are required they can be redirected, with Congressional approval, from existing program surpluses. If the disease is an emergency threat, more resources may be acquired from the contingency fund. If the Secretary declares an emergency, he or she has the authority to redirect funds from other USDA appropriations. All of these sources may be limited by other factors, such as competing budget needs.

Question: To ensure that unexpected animal and plant health emergencies could be met in the future, what level of funding would be adequate to ensure that such emergencies could be quickly and adequately responded to?

Answer: The level of funding required to respond quickly and adequately to emergency threats would depend on the nature of the emergency and the ability of the States and industry affected to control the situation. Costs for past emergencies have ranged from less than $1 million for the 1985 Medfly program in Florida to $64 million for the 1983-84 avian influenza outbreak.

Question: If appropriated, is there any reason to believe that OMB might not apportion these funds?

Answer: If appropriated, there is no reason to believe that the Office of Management and Budget might not apportion these funds.

Question: Have you issued any regulations on sanitation requirements for interstate livehaul trucking?

Answer: No, we have not issued any regulations on sanitation requirements for interstate livehaul trucking. We believe that it is not necessary because avian influenza can be kept from spreading to poultry if each State and its poultry industry work together to improve biosecurity practices.

Question: Are any funds included in the 1987 budget request to implement interstate sanitation regulations? If not, please provide for the record the funding and staffing levels needed to implement such regulations.

Answer: No funds exist in the FY 1987 budget request to implement interstate sanitation regulations. We estimate that implementing interstate regulations would require approximately $4.1 million annually and 100 additional personnel. At this funding level, we could amend the 9 CFR to require cleaning and disinfecting of all items associated with avian influenza infected poultry and regulate interstate movement of crates and coops used to transport poultry to and from infected or exposed States. In addition, we could require that conveyances used to transport poultry be cleaned and disinfected before entering different States and that truck drivers who haul poultry maintain a log of interstate movements and times when they cleaned and disinfected trucks and equipment.

Question: How do you decide which pest or disease introduction is an emergency and which is not?

Answer: We consider several criteria when deciding whether a pest or disease introduction into the United States qualifies as an emergency. Essentially, the economic significance of the pest or disease, the threat of rapid spread and/or widespread damage, and the ability of the States or industry to handle the situation determine the emergency status of the pest or disease.

Question: Avian influenza cost $65 million to eradicate less than 2 years ago. Why isn't this outbreak considered an emergency?

Answer: The avian influenza virus that caused the 1983-84 emergency was a highly pathogenic virus. The avian influenza virus involved in the current outbreak is a low pathogenic virus. Also, States and industry moved quickly to deal with the current outbreak while it was at a controllable level.

Question: What have you done to try to get the necessary funding for avian influenza?

Answer: At the present time the necessary funding for the APHIS role is included in the appropriation.

Question: What problems occur from a program view when funding delays like this happen?

Answer: When funding delays occur, critical time is lost in the survey and control of pest or disease outbreaks which increases government costs. By the time funding is available for Federal control of the situation, extensive damage and disease spread may have occurred. Additionally, we may lose the State's and industry's confidence and support if undue delays occur. Ultimately, successful completion of the program may require a lengthier involvement than would have been necessary had the delay not occurred. Therefore, the end result of funding delays, perhaps thought to be a cost saving measure in the short run, is higher costs to the government in the long run.

Question: Do you believe that the affected States can handle the avian influenza problem with no USDA assistance?

Answer: We believe that affected States can handle the avian influenza problem with the current level of USDA assistance. The Federal government is providing States and industry with epidemiological, diagnostic, laboratory, and technical assistance.

Question: Do the States have the same regulatory powers available to APHIS for controlling the disease?

Answer: They have many of the same powers but States cannot impose regulations governing the interstate movement of poultry and poultry products.

Question: Can we be sure that the current avian influenza outbreak will not become highly pathogenic, as the 1983-84 outbreak did?

Answer: No, we cannot be sure that the current low pathogenic avian influenza virus will not become highly pathogenic in the future. The isolate from each new case in this outbreak is tested for pathogenicity for this reason.

Question: Could strengthened Federal regulations prevent avian influenza from spreading?

Answer: Yes, strengthened Federal regulations could help to prevent avian influenza from spreading, but they would be expensive to implement and disrupt poultry marketing patterns - a proposal that is not favored by that industry.

Question: Is the live bird market sufficiently regulated to prevent it from becoming a constant source of disease spread?

Answer: We do not believe that the live bird market has been sufficiently regulated to prevent it from becoming a source of disease spread. States in which contaminated live bird markets have been found have taken actions to depopulate and clean and disinfect these premises. We are conducting a Nationwide study of live-bird marketing to learn more about its potential role in the spread of disease.

Question: Did the delay in responding to 1983-84 outbreak lead to the eventual wide spread of the problem?

Answer: It is likely that a response while the virus was still low pathogenic could have limited its spread. During the approximately 6 months before APHIS could intervene in the 1983-84 outbreak the avian influenza virus changed from low pathogenic to highly pathogenic with resulting depopulation and indemnity payments. Had the disease been eradicated in its early stage government and industry costs would probably have been diminished.

Question: What level of State involvement do you view as their fair share in the avian influenza program? In other words, when does the problem become big enough for Federal involvement?

Answer: The ability of the States to handle the avian influenza problem varies widely based on such criteria as the pathogenicity of the virus, the extent of the spread, prior experience in carrying out eradication campaigns, and the amount of physical and monetary resources available to combat the disease. In most cases, some USDA assistance, particularly technical advice, would be needed. Another important criteria is the nature of the agricultural industry in the State where avian influenza is introduced. The disease may enter a State where it does not present an immediate threat. In such cases, the State may have little incentive to take action, increasing the need for Federal involvement to protect other States' poultry.

Question: Can USDA pay indemnities to those owners of poultry depopulated by the States?

Answer: No USDA cannot pay indemnities to owners of poultry depopulated by the States. USDA did not order the destruction of these birds or enter into an agreement before their destruction that would provide for USDA payment of indemnities.

Question: Can USDA pay indemnities without an emergency declaration?

Answer: Yes, USDA can pay indemnities from regular appropriations if an emergency is not declared.

Question: Can you pay full value for each bird?

Answer: Under 9 CFR Section 53.2, USDA can pay up to 100 percent of the expenses of purchase, destruction and disposition of animals and contaminated materials. The appraisal of animals shall be based on the fair market value and shall be determined by the meat, egg production or breeding value of such animals.

PLUM ISLAND FACILITY

Question: Does the condition of APHIS facilities at Plum Island adversely affect your work?

Answer: Our work is adversely affected, primarily in the areas of productivity and efficiency, by the conditions and location of the APHIS facilities at Plum Island. We suffer a loss of productivity due to the need to travel frequently between the administration building and laboratories. We have excessive operational costs because of inefficient equipment and buildings. The laboratory equipment is obsolete and requires frequent repair and maintenance. For example, the boiler was installed in 1954 with a life expectancy of 15 years. And finally, the laboratory space is inadequate in design and size resulting in underutilization of personnel.

Question: What plans do you have to deal with the problem?

Answer: The Agricultural Research Service (ARS) is the owner and manager of the Plum Island facility and is responsible for its construction and maintenance. ARS has developed plans to renovate one-fourth of its laboratory space and the annex to the main building. When ARS completes the renovation of these facilities, we plan to vacate the dilapidating facilities and move into the newly renovated space.

Question: What would these plans cost?

Answer: We estimate that the renovations will cost ARS up to $8,000,000.

Question: Would these plans provide a long-term solution to the problem?

Answer: The proposed construction and remodeling would provide a long term solution through updating equipment, providing more adequate space, consolidating facilities, and reducing operating costs.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

GYPSY MOTH

Question: As you know, on March 6, 1986, USDA made available $4.436 million to APHIS for gypsy moth eradication. However, the State of Oregon, which also provided $4 million, estimates the USDA share to be $4.9 million. How do you explain the discrepancy between the State of Oregon's figure of $4.9 million and that provided by USDA of $4.436 million?

Answer: The $464,000 represents a planned reimbursement to the Forest Service for gypsy moth control activities. We reduced the funding request from $4.9 million to $4.436 million after the Forest Service agreed to absorb this cost internally. The funding reduction does not represent a cut in program activities.

Question: Will USDA provide the remaining funds, if they are needed, at a later date?

Answer: We will not need the reimbursement since the Forest Service is providing internal funding for the program.

Question: From what account will these funds be drawn? APHIS? Forest Service?

Answer: Forest Service will provide the funding.

Question: What steps will have to be taken to make these funds available, if they are needed?

Answer: These funds will not be needed since we can complete the necessary work without a transfer of funds.

Question: The provision of the $4.436 million in FY 1986 represents the second consecutive fiscal year in which emergency funds have been provided. While the State of Oregon is optimistic that this year's spraying will substantially reduce the gypsy moth in its present concentration, that information will not be fully known until later this year after extensive trapping. Does the FY 1987 USDA budget provide any funds for gypsy moth eradication? If not, why?

Answer: The FY 1987 budget does not provide funding for the Lane County eradication program. We will evaluate the results of this year's program before seeking additional funding.

Question: Should another year of spraying be required, will USDA make available funds through an emergency transfer to APHIS for this purpose in FY 1987?

Answer: If funds are needed, we will look at all available funding alternatives.

CALICIVIRUS

Question: In previous fiscal years ARS has provided funding to Oregon State University to pursue calicivirus research. The research was completed in FY 1985 and not continued in FY 1986. One of the reasons previously cited for ARS reluctance to pursue a broader research program is that APHIS has not made the research a high priority. However, recent research findings from OSU indicate that calicivirus in ocean fish can produce vesicular exanthema in swine, that a calicivirus having an ocean presence has been isolated from domestic cattle, that preliminary serologic surveys of domestic cattle show exposure to calicivirus stereotypes and that these viruses cause vesicular disease in experimentally exposed cattle. Does APHIS dispute these findings? Please explain in detail.

Answer: No, APHIS does not dispute the above Oregon State University findings.

Question: How do these findings compare with those ascertained from the National Animal Disease Laboratory in Ames, Iowa?

Answer: To date we have conducted all calicivirus work at the Foreign Animal Disease Diagnostic Laboratory (FADDL), Plum Island, New York, with some of our results varying from OSU findings.

Question: How do you account for any discrepancies in the finding of OSU and the National Animal Disease Lab?

Answer: FADDL could not duplicate the reported transmission of type 13 calicivirus from cattle to cattle. This may be because Oregon injected their cattle with type 13 some weeks following injection with another calicivirus type.

Question: If there are none, why is a higher priority not placed on the research?

Answer: We do not place a higher priority on calicivirus research primarily because we have not seen a need for this type of research demonstrated by field investigations. In fact, we have received no reports of vesicular disease symptoms in domestic cattle that were caused by calicivirus. We do not expect calicivirus to become prevalent in domestic cattle nor do we feel that it threatens swine. The Code of Federal Regulations requires that fish meal from the west coast - where calicivirus originates - be cooked before it is fed to swine, thus eliminating the threat of a calicivirus outbreak.

Question: If it is determined that research should be pursued, ARS has indicated it would be performed in Ames, Iowa, rather than at OSU. Given OSU's extensive research on this matter and the fact that Ames is in the midst of the major swine producing region in the U.S., why is Ames the preferred site rather than OSU?

Answer: Ames is the preferred site for several reasons. The National Animal Disease Laboratory at Ames, Iowa, is an ideal research site with excellent confinement facilities. It is the U.S. Department of Agriculture's responsibility to conduct differential diagnostics for vesicular diseases. In light of that responsibility, we are currently developing differential diagnostic tests for calicivirus.

QUESTIONS SUBMITTED BY SENATOR BURDICK

GRASSHOPPER CONTROL

Question: Mr. Hawkins, I want to concentrate for a moment on the grasshopper control program. You cite the program in your testimony with some pride indicating that you treated nearly 14 million acres last year. This was at a cost of roughly $28 million. The problem with this program is that it is never carried out at the right time so that instead of killing the grasshoppers before they lay their eggs, they are sprayed after egg-laying, and after eating their way through the farmers' fields and pastures. If we'd get the job done at the right time, we wouldn't face these terrible disasters year after year.

Apparently, last year the spraying was not done on time again since your own survey shows that 59 million acres are economically affected again this year. Why can't you get the spraying done on time?

Answer: Our assessment of last year's program is that the spraying was, in fact, done on time. The 1985 fall survey estimate of 59 million acres is not the result of misapplication of pesticides or poorly timed treatments the year before. Rather, it resulted primarily from favorable conditions for grasshopper hatch and development on lands not treated in 1985.

The success of last year's control program is reflected by the recent fall grasshopper survey results which show that lands treated in 1985 are relatively free from infestations this year despite the fact that nearly 14 million acres were sprayed -- twice as many as ever before. In Idaho, for example, the fall 1984 survey indicated a total of 4.7 million acres potentially requiring treatment in 1985. Climatic conditions favorable to grasshopper hatching made it necessary to actually treat 6.4 million acres. This year's fall survey indicates that fewer than 350,000 acres in Idaho may require treatment. That is why I am proud of the way our people conducted the program in 1985. We will make every effort to ensure that this year's treatments are timed so as to optimize their effectiveness.

Question: The Department consistently asks for only about $1 million for grasshopper control. Yet, last year you spent $28 million, this year we made $18 million available. The problem that you create for yourself is that by requesting so little funding, when the crisis hits, there is no time to get the money together in time. Last year, it took considerable pressure on Secretary Block before he agreed to transfer money to this program. I can understand this reluctance to transfer money because it takes away from other programs. But I cannot understand your not funding the program adequately in the first place. You are required to carry out a grasshopper control program. Why don't you request adequate funding in the beginning?

Answer: APHIS submits its funding request to the Department approximately 20 months prior to the start of the grasshopper season to which they will be applied. At that time, there is no way to predict the severity of an outbreak since grasshopper populations are heavily affected by weather conditions and the effectiveness of the previous year's control activities. Thus, we cannot accurately forecast our funding needs until grasshoppers begin to hatch each spring. This problem was made clear in FY 1985 when an unusually early spring contributed to the largest grasshopper infestation in the history of the program. The mix of private, State, and Federal land requiring treatment also contributes to fluctuations in funding estimates. Since private owners and States must contribute a certain share of treatment cost, they may elect not to treat even though grasshopper infestations are at an economically significant level.

The recently passed no-year grasshopper fund together with the Department of the Interior contribution should help to alleviate the problem of inadequate control funds. If we fully obligate the no-year fund, the 1985 Farm Bill requires the Department of the Interior to reimburse APHIS for the cost of treating land under its jurisdiction. Otherwise, the no-year funds can be carried over for use in the following year's grasshopper control program.

Question: What assurances can you give the Committee that you will make the necessary money available and conduct the control on time this year?

Answer: We intend to provide, within the limits of available resources, the funds necessary to carry out an effective program and to ensure the timeliness of treatments. This year, more than $15 million is available for grasshopper control in the no-year fund established by Congress for this purpose. In addition, the Department of the Interior will be required to reimburse APHIS for the cost of treating their lands if the funds available to APHIS in the no-year fund are exhausted. Thus, we believe that adequate funds are available to carry out our responsibilities.

From a planning standpoint, significant efforts are being made to ensure that the nation's grasshopper control needs are met. As required by the National Environmental Policy Act, we have developed an Environmental Impact Statement for the 1986 program. We are also working to alleviate or minimize any problems with respect to procurement of spraying contracts and arrangements for adequate storage of chemicals. Meetings are being held with other Federal agencies, States, and community organizations to ensure appropriate coordination of control activities. Also, a high priority is being placed on the spring grasshopper survey to accurately define areas requiring treatment. We are working to complete the necessary Interagency Agreement with DOI to allow a smooth transfer of funds from DOI to USDA in the event the no-year fund is fully obligated. Finally, treatments will be biologically timed so as to maximize their effectiveness.

Question: Your survey this year shows about 59 million acres to be infested. You've got $17,000,000 to spend. Last year, about 56 million acres were expected to be infested and you spent $28 million for control. How can you say that the $17 million will be enough when $28 million was needed last year?

Answer: For the FY 1986 program, we are hopeful that adequate funds are available to carry out our responsibilities. We will fully obligate the no-year grasshopper control fund before seeking reimbursement, if necessary, from the Department of the Interior (DOI). DOI lands constitute over 70 percent of the total Federal lands potentially requiring treatment based on the fall 1985 adult survey results. Thus, a substantial portion of program costs would become the responsibility of DOI should funding requirements significantly exceed the APHIS no-year fund availability.

Question: You indicate in your budget request that you are merely requesting $1 million because of the new Farm Bill. I realize that the Farm Bill provides that money can be transferred to you for grasshopper control on lands under the jurisdiction of the Department of Interior. However, the Farm Bill still states that the Secretary of Agriculture shall carry out a program to control grasshoppers on all Federal lands. What is your interpretation of the Farm Bill language?

Answer: The 1985 Farm Bill requires that APHIS conduct a program to control grasshopper and Mormon cricket on Federal land determined to be economically infested. APHIS will also treat economically infested State and private rangeland if cooperators contribute 50 percent and 33.33 percent of the treatment cost, respectively.

As part of the APHIS FY 1986 continuing resolution, a no-year fund totalling $15,385,000 -- after the Gramm-Rudman-Hollings sequestration -- was established for grasshopper control. The new legislation requires that the Department of the Interior reimburse APHIS for costs incurred in treating lands under the jurisdiction of DOI once the no-year fund is fully obligated.

Question: If the Secretary of the Interior does not transfer money to you, what will you do?

Answer: We have every reason to believe that the Secretary of the Interior will comply with the law. We are working closely with the Department of the Interior (DOI) to complete the necessary Interagency Agreement to allow a smooth transfer of funds from DOI to USDA in the event the no-year fund is fully obligated.

ANIMAL DAMAGE CONTROL

Question: How has the transfer of the Animal Damage Control program from the Fish and Wildlife Service to APHIS worked out?

Answer: The transfer of the ADC program to APHIS is proceeding smoothly. We completed the transfer as scheduled on April 1, 1986 and have integrated the program into the APHIS organizational structure. We reached an agreement with the Fish and Wildlife Service on the funds, personnel, property, FTE employment targets, and records transferred. With regard to the funds, the Fish and Wildlife Service has a separate line item in their budget for general administration which covers executive direction, administrative services, and related support services such as GSA rent, FTS, postage, unemployment compensation, etc. The $20 million appropriated to APHIS in FY 1986 does not include any funds for general administration requirements. The Fish and Wildlife Service and Animal and Plant Health Inspection Service agreed that general administration costs for animal damage control total $2 million for FY 1986. The Fish and Wildlife Service agreed to assist in support of these requirements for FY 1986, after which USDA will bear these costs.

Question: Can you tell me what some of the accomplishments are?

Answer: Although the program was transferred very recently, we have taken a number of initiatives to improve the program. One major planned initiative is the establishment of the Secretary's Advisory Committee. This committee will include representatives from major groups outside of USDA which are concerned with ADC activities. The purpose of this committee is to provide the Secretary with advice on ADC policy. This will help ensure that we balance agricultural and environmental concerns. Also, we are forming an interdepartmental group with Forest Service, Cooperative State Research Service, Agricultural Research Service, Economic Research Service, Extension Service, and APHIS. This group will define each agency's role in ADC and provide policy advice to the Administrator. Our objective is to carry out a program which is biologically sound, economically feasible, and environmentally acceptable.

Question: Last year, this committee recommended $500,000 for Blackbird research. Are you making that money available?

Answer: Yes, we are.

Question: How is it being used?

Answer: Blackbird projects include: research to test blackbirds' physiological and sensory perceptual response to attractants, repellents, and toxicants; development of improved chemical methods to alleviate blackbird damage to ripening sun flowers; studies to coordinate and provide data to maintain and expand registration of blackbird control chemicals; evaluation of new blackbird control products for performance and safety; development of techniques to reduce nuisance and health problems associated with winter roosting of blackbirds and starlings; evaluation of corn and sunflower hybrids for resistance to blackbird depredation; and development of methods for alleviating blackbird damage to sprouting and ripening rice.

Question: Since you are proposing to cut the ADC appropriation by 50 percent, you indicate you will give priority to those programs that prevent agricultural losses. How will this cut affect the blackbird research?

Answer: We are currently evaluating all program activities to determine where reductions can be made. Because of the magnitude of the reduction, all program activities will have to be reduced substantially, including blackbird research.

SWINE VACCINE

Question: What is USDA's timeframe to have the new swine vaccine on the market?

Answer: The voluntary suspension will expire at 12 midnight on April 22, 1986, as agreed between the vaccine manufacturer and APHIS. This suspension only applied to vaccine not yet released from the manufacturer's premises and not to vaccine already released and on the market.

Question: Do you think USDA has room to negotiate with groups such as the Foundation for Economic Trends in order to have the vaccine available sooner?

Answer: In view of the fact that the product will return to the market soon, such negotiations will not be necessary to reduce the length of the suspension.

Question: What is the economic loss to pork producers and which States are the hardest hit?

Answer: A 1981 APHIS study determined that losses in 1980 due to pseudorabies were $34 million, not including losses attributable to breeder stock producers. By 1985, it was estimated that 6.4 million swine, 8 percent of the nation's swine population, were infected. This number represents a tenfold increase in infection rates since 1975. Iowa and Minnesota are the hardest hit with disease prevalence rates of over 10 percent. Illinois, Indiana, Kansas, Michigan, North Carolina, North Dakota, Pennsylvania, and South Dakota have disease prevalence rates of between 5 and 10 percent.

Question: I understand that an added benefit of the vaccine is that it would make it possible to distinguish infected animals from ones which had been vaccinated by the use of a blood test, something which is not currently possible with the present vaccine. This would be a substantial boon to both buyers and sellers, would it not?

Answer: No, there are no readily available tests which would make it possible to distinguish between pseudorabies free swine which have been immunized with this vaccine and animals which have been infected with field strains of pseudorabies virus. It is possible using genetic engineering procedures utilizing DNA probes or monoclonal antibodies, to develop such a test.

Question: What is USDA's current procedure and organizational structure for assessing the safety of the release of genetically engineered organisms, prior to allowing such a release?

Answer: APHIS staffs evaluate applications for licenses and permits. APHIS complies with the National Environmental Policy Act (NEPA); regulations implementing NEPA; departmental regulations and APHIS guidelines for implementing NEPA, in making environmental assessments on the effects of proposed releases of genetically engineered organisms. As part of the evaluation of an application, APHIS reviews information furnished by the applicant, may request additional information or testing, may inquire as to the purpose of the proposed release or introduction, and may have certain tests conducted under APHIS supervision or by APHIS personnel in APHIS facilities. For example, APHIS may test biologics at National Veterinary Services Laboratories in Ames, Iowa, and at the Foreign Animal Disease Diagnostic Laboratory at Plum Island, New York. APHIS also has access to and members on the USDA's Agricultural Recombinant DNA Research Committee.

Question: Is this procedure a unified approach involving all relevant portions of the USDA including the Agricultural Recombinant DNA Advisory Committee?

Answer: Yes. In addition APHIS involves other government agencies responsible for regulating biotechnology, principally the Food and Drug Administration (FDA) and the Environmental Protection Agency (EPA) in reviews as appropriate. Within USDA, APHIS consults with Agricultural Research Service (ARS) and other scientists as needed. APHIS also refers issues to the Agricultural Recombinant DNA Research Committee (ARRC) when research issues arise in which the ARRC's advice would be helpful. APHIS has members on the ARRC. In conjunction with this vaccine, it should be noted that the vaccine was discussed informally with the ARRC prior to its licensure. Early animal testing of the recombinant vaccine virus was performed in the USDA's Science and Education, ARS, National Animal Disease Center in Ames, Iowa. One of the major field tests of the vaccine was performed under the auspices of a researcher at Michigan State University's College of Veterinary Medicine.

Question: Has USDA changed its procedure following the disclosures about the release of the genetically engineered pseudorabies vaccine? If yes, please indicate the changes and reasons.

Answer: No, consistent with the Department's December 31, 1984, policy statement, we do not regard genetically engineered products as being fundamentally different from products developed through conventional techniques. We regard the present regulatory review as adequate for licensure of recombinant and non-recombinant vaccines. Because of the controversy over the licensing of this vaccine, APHIS is making available for public review the review and evaluation of environmental concerns that is a normal part of licensing procedures.

Question: Does the current procedure provide for public participation and comment prior to a release?

Answer: Under the current procedure, if an Environmental Impact Statement is deemed necessary, in compliance with NEPA and APHIS guidelines, public comment will be invited. When there is an Environmental Assessment and Finding of No Significant Impact, APHIS will make the availability of this document known to the public through Federal Register announcements.

Question: Does the USDA require the applicant for a release permit to bear the burden of demonstrating the safety of the release?

Answer: Yes. In licensure and in permits, among other requirements, APHIS requires the applicant to demonstrate and document safety prior to release.

Question: Is the applicant required to assess the likelihood of harm to the environment?

Answer: No, APHIS, not the applicant, is required to assess environmental effect. However, the applicant must furnish relevant information requested by the Agency and necessary to assess the potential effect of the release on the environment.

Question: Does USDA consider intracellular changes of an organism's genome using genetic engineering techniques, such as the removal of genes rather than the addition of genes, to be an aspect of biotechnology requiring the same type of scrutiny as changes made using recombinant techniques, prior to the organisms release?

Answer: APHIS looks at gene deletions just as carefully as additions, because both change the expression of the genetic material of the organism.

QUESTIONS SUBMITTED BY SENATOR CHILES

CENTRAL AMERICAN MEDFLY ERADICATION PROGRAM

Question: I understand the Animal and Plant Health Inspection Service (APHIS) submitted a report to the Congress last year regarding the eradication of the Medfly from Central America. Tell me something about the report's findings.

Answer: The report basically concluded that Medfly eradication from Central America is both technically and operationally feasible. Strong support for the idea was found to exist among the people and governments of the region for reasons both economic and environmental. The report contemplates a 9-year program to achieve eradication, at an estimated total cost of $349 million. Subsequently, an updated estimate has been prepared indicating a total program cost of $310 million over 8 years. An economic analysis was cited, indicating that benefits under optimistic assumptions outweigh costs by about 2.5 to 1. Although the economic analysis addresses benefits from the U.S. perspective only, significant advantages would also accrue to Mexico, the Central American nations, and Panama. The report stressed the desirability of an international approach to funding and program management, with the Food and Agriculture Organization (FAO) of the United Nations deemed a logical choice to coordinate the effort.

Question: What is the status of activity on this report now?

Answer: The Food and Agriculture Organization of the United Nations has been designated to coordinate the development of the program and the request for assistance on financing from donor countries. FAO has made available $780,000 to initiate activities that will expedite the beginning of the program when sufficient funds become available. Plans are underway for a conference of potential donor nations and organizations to be held late this year.

Question: Is APHIS interested in pursuing this matter?

Answer: Yes, we are cooperating in current activities. However, a long-term commitment to the program would require additional funding.

Question: Given the current Medfly eradication line that exists along the Mexico-Guatemala border, how likely is it that we will experience a major Medfly outbreak in the United States? Is it, say, 5 percent likely? 20 percent likely? Try and give me some percentage figure.

Answer: There are many variables in dealing with any pest, so it is difficult to predict the likelihood of Medfly becoming established in this country. If an attempt is made to merely maintain the current sterile barrier, there is strong evidence that Guatemala might lose interest in the program. The resulting buildup in populations would most likely spread into Mexico, and could eventually spread to the United States. Under this scenario, there is of course a 100 percent likelihood of eventual major domestic Medfly outbreaks. However, we believe that by using available technology to continue cooperative efforts with Guatemala, we can maintain progress in moving Medfly further from the United States. This would reduce the probability of natural spread virtually to zero and reduce the risk of artificial spread in proportion to the distance of the infestation from our borders.

Question: What are the total costs estimated for the Central American eradication program?

Answer: Our most recent analysis indicates that eradication can be achieved at a total cost of $310,400,000.

Question: What percentage of the costs would come from the United States?

Answer: In preliminary discussions, FAO suggested that in their opinion, the United States perhaps should be expected to contribute between $30 and $35 million annually, and the donors $12 to $15 million annually. However, no firm cost-sharing formula has yet been worked out. We are seeking to identify potential donor nations and organizations, both domestic and international, which may share our interest in achieving eradication. Toward that end, the FAO is making plans for an international donor conference to be held later this year to assess and solidify support for the project.

Question: How long will it take?

Answer: We are currently projecting that eradication would be accomplished within 8 years.

Question: If we undertook such an eradication effort, how likely would it be for the U.S. to then experience a major Medfly outbreak? I would like to know by how much we are reducing our risk of suffering a severe Medfly infestation if we spend all this money.

Answer: By eradicating the Medfly from Central America, we are virtually eliminating the possibility of introduction into the United States by means of natural spread, while at the same time mitigating the risk of accidental introduction by travellers from that region.

Question: Isn't it still possible for the Medfly to find its way to the U.S. even if it is eradicated from Central America and Panama?

Answer: The possibility of the Medfly finding its way to the U.S. would still exist, although the likelihood of an infestation occurring in the eastern United States would be greatly reduced. It is suspected that the detections which occurred in Florida in recent years were of Panamanian or Central American origin. The program would not reduce the threat to California of an introduction from Hawaii.

Question: Have all the Central American countries agreed to participate and help financially and logistically in the eradication effort?

Answer: The Ministers of Agriculture from Mexico, the Central American countries, and Panama met recently and issued a joint resolution supporting the Medfly eradication project. We believe that this show of support will extend to financial and logistical considerations as well.

Question: Who would coordinate the program?

Answer: The program would be managed and directed by the FAO. That international organization has already indicated that it will request technical assistance and support from the United States.

Question: What assurances would we receive that the U.S. share of the funding would actually go for the purpose for which it is intended?

Answer: Several factors give us confidence that the U.S. share of funding for the project would be used as intended. First, all donor countries, including the United States, will meet at least annually to review the program's expenditures and operations. Secondly, a technical committee has been established to give program guidance with representatives from APHIS, the Agricultural Research Service (ARS), and the U.S. agricultural industry. Finally, FAO has agreed that some expenditures can be handled more efficiently and cost-effectively if performed directly by the United States. For example, it is proposed that construction of the necessary rearing facilities be done by APHIS, and that ARS will oversee research aspects of the program.

Question: What major U.S. crops does the Medfly attack?

Answer: The Medfly attacks more than 200 fruit and vegetable crops. Preferred hosts of importance to the United States include apple, citrus, peach, pear, avocado, sweet bell red pepper, and tomato.

Question: What would be the economic impact of a major U.S. Medfly outbreak?

Answer: The economic impact of a permanent Medfly infestation in California has been estimated at approximately $350-$750 million annually. Based on this estimate, the economic impact of a permanent Medfly infestation in the United States is estimated at roughly $2 billion annually.

CITRUS CANKER

Question: I understand APHIS' interest in eradicating the Medfly from Central America. However, given the interest, I am surprised that APHIS apparently is considerably less concerned about the current citrus canker infestation in Florida. Hasn't APHIS pulled its financial support and people out of this eradiction effort?

Answer: Yes, all personnel have been withdrawn except for a small number in a management capacity who were left to provide technical assistance and ensure the integrity of ongoing interstate regulatory activities. Any previous commitments for compensation payments will be honored. Except to the extent necessary to carry out the aforementioned activities, no further financial support for the program is contemplated.

Question: Why was this done?

Answer: Federal participation was terminated due to an inability to secure adequate funding to continue the program.

Question: Do you believe the State of Florida alone is able to effectively carry-out a canker detection, control and eradication program without USDA financial and logistical assistance?

Answer: State of Florida officials and representatives of the citrus industry have assured the Department that they will attempt to do whatever is necessary to carry out a citrus canker control, detection, and eradication program in the absence of USDA financial and logistical assistance. However, they recognize that any such effort is contingent upon the wishes of the State of Florida Legislature to appropriate adequate funds or to authorize the industry to impose and collect taxes for such a program. A USDA presence is believed necessary to assure that efforts taken by the State are in harmony with the national agricultural interest.

Question: Isn't the elimination of serious plant and animal pest infestations a joint Federal/State responsibility?

Answer: Yes, to the extent that the national agricultural production and marketing system, the national economy, or the balance of trade is adversely affected, the elimination of serious plant and animal pest infestations is a shared responsibility of the States and Federal government.

Question: Do you support supplemental funding this year for continued USDA financial support of the citrus canker eradication effort?

Answer: Taking into account the current Federal emphasis on deficit reduction, together with the fact that Florida and the citrus industry have demonstrated a willingness to take over support for the program, we do not advocate such an approach at this time.

Question: The House is asking for $14 million in canker funding in the supplemental. Of this amount, some $3 million may actually become uncommitted. How would APHIS use this $3 million in the canker eradication effort?

Answer: We would propose to use approximately $11 million of the supplemental funds to cover payment of compensation to owners of destroyed plants, including an unknown amount for approximately 4,000 seed and scion trees, the exact value of which has not yet been determined. The remaining $3 million would be used to help share additional costs with the State as well as to cover any unexpected costs or needs relating to additional detections should they occur.

Question: Would you support a line item appropriation in Fiscal Year 1987 for Federal financial support? If not, why not?

Answer: We believe the Federal priority of deficit reduction together with the demonstrated willingness of Florida and the industry to handle the current situation point to the conclusion that further Federal participation is not appropriate.

Question: Would you detail for me USDA's costs associated with the canker eradication program. In addition to reimbursement expenses, I am interested in salary and benefit costs, any other personal services expenses, operating expenses, operating capital outlays and any other pertinent costs. Would you break these out on a yearly basis?

Answer: We would be pleased to provide that information for the record.

Citrus Canker Emergency Funding
1984-1986

	Fiscal Year 1984	Fiscal Year 1985	Oct 1985 - March 1986
Salaries and benefits	$108,132	$4,056,886	$1,475,261
Travel and transportation	73,523	1,318,593	337,747
Rent, communications, and utilities	3,263	363,900	248,960
Printing, etc.	--	16,749	940
Misc. services	91,355	636,323	(73,903)[1]
Supplies, materials and equipment	33,725	1,325,635	220,438
Indemnities	--	4,093,408	29,863[2]
Total	$309,998	$11,811,494	$2,239,306

[1] Includes reimbursement of $296,750 received from Florida to achieve 50-50 cost sharing distribution.

[2] APHIS is currently in the process of issuing indemnity payments to owners of plants destroyed in FY 1986. A total of $11.1 million was transferred from ARS to APHIS in March 1986 for this purpose.

FRUIT FLY FREE ZONES

Question: As you know, this subcommittee has been interested in the establishment of fruit fly free zones that would eliminate the need for fruit fumigation as currently required by some states and foreign governments. During this fiscal year, what effort is APHIS making to make fruit fly free zones a reality?

Answer: We are continuing to develop data in the Rio Grande Valley to support the fruit fly free zone concept with respect to the Mexican fruit fly. Also, we are working with the Florida Department of Food and Agriculture to collect data on trap efficacy, i.e., the relationship of trap catch to larval populations in the fruit, in order to develop the necessary information to convince the receiving State or country that this biological approach to certification is valid.

Question: Is APHIS working with the State of Florida on this matter?

Answer: Yes, we are. We have a representative, Dr. Brazzel, serving on the Technical Advisory Committee studying the problem.

He has been in close contact with officials of the Florida Department of Plant Industry, specifically Charles Poucher and Dr. Ru, to develop the necessary tests to validate the procedure.

Question: What APHIS funding has been used for this research and analysis?

Answer: Funds from our regular appropriation are being used to provide technical support and assistance to Florida for this project.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

BRUCELLOSIS

Question: Isn't it true that we cannot possibly afford to make such drastic cuts in the brucellosis eradication program now that progress is being realized?

Answer: We believe the FY 1987 budget request to be consistent with the needs of the brucellosis eradication program.

Question: Wouldn't the cuts you are proposing have a significantly negative effect and be contradictory to our goal of total eradication?

Answer: We do not believe the reduction of $6,515,000 will have a significantly negative effect. Because of the decreasing level of infection, Federal funding for the program can be reduced and progress can continue.

Question: Do the Administration's goal now include the total eradication of brucellosis?

Answer: The long range goal of the program is still the total eradication of brucellosis. The program will focus on States with the highest level of infection and, with increased State and industry involvement, will prevent the reintroduction of brucellosis into Free and low incidence States.

Question: Arkansas recently enacted strict laws that cattle must be vaccinated for brucellosis, and if that vaccination is done on the farm, it must be done without cost to the cattle owner. Our State law also requires "S" branding and slaughter in cases where it is determined that cows have reached 12 months of age without being vaccinated. Now, the Administration's FY 1987 budget request would allow no more on-farm vaccinations and no more free vaccine. In order to comply with our State law, these budget proposals would require the State of Arkansas to fund an increased share of the cost of vaccination. However, because we have a balanced budget requirement, under a projected revenue shortfall, the State's funds for brucellosis would be cut, and it is entirely possible that no money at all would be available to make up for the reduced Federal funds. Don't you agree that it is damaging to the success of the program to make budgetary and policy changes that truly jeopardize its implementation?

Answer: We do not believe that the brucellosis program will by jeopardized by decreased Federal funding of vaccination. Federal employees will still be encouraged and allowed to vaccinate calves in affected herds while on the the farm for testing or other purposes. Albeit, the program does require a greater commitment from those States that have been depending on Federal funds for vaccination. In 1985 owners and States paid for over 73% of the 9 million calves that were vaccinated. The Federal government is also operating under budget constraints and must concentrate resources where they will be the most effective. In the brucellosis eradication program this means that we emphasize those methods that quickly reduce the disease incidence, such as depopulation of infected herds, and improve the classifications of A, B and C States.

FOOD SAFETY AND INSPECTION SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

USER FEES

Question: How will this proposal impact on imports and the export of American agricultural products?

Answer: To the extent that inspection costs are simply passed forward in the distribution chain the cost of exports would increase a fraction of a cent per pound. Because the additional costs per pound are so small and there are so many other factors that affect the level of exports, we believe that the user fee will have no measurable impact on exports.

For imports, FSIS has recommended an hourly fee. The cost of import inspection per pound could vary widely depending on the size of lot and type of product. However, as in the case of exports we do not expect the user fee to have any significant impact on imports.

Question: From time to time, there is litigation against food companies claiming that these companies were negligent in allowing an unsafe product to reach the market. If a company determines that there was negligence on the part of their own personnel, I would think they would take some action against the proper employee or employees, but you can't fire the Federal Government if the inspectors were partly at fault. Do those companies now have recourse against the Government if a judgment is issued against them?

Answer: The inspection acts put the responsibility on the regulated industry to produce products in compliance with the laws and regulations. Our inspectors monitor industry practices and enforce the law when detecting violations. Violators of the law cannot sue the enforcement authorities for not preventing violations. However, to the extent that an inspector participates in the commission of a violation of the law, the inspector would be subject to criminal prosecution.

Question: If companies were charged user fees (creating a mandatory expense for their business) do you think they would have a right to expect the inspectors to bear more responsibility for the safety of the products?

Answer: The introduction of user-paid financing would have no effect on the basic laws and regulations governing inspection. It is the intent of our proposal to preserve the independence of inspection under a user fee program. Whether the funds come from general tax revenues or user fees will make no difference in the responsibilities of either the plant or the inspector.

STATE INSPECTION USER FEES

Question: You indicate in your statement that if a State chooses to abandon its inspection programs, the Federal Government would "have to pick up the burden." How would this be funded?

Answer: Plants in states that elect to terminate their inspection programs will automatically come under Federal inspection. Currently the cost of this inspection is paid from appropriated funds. Under our user fee proposal, plants in these states would be assessed the same fees as other Federally inspected plants.

Question: Under current law, can you limit the amount of inspection you are required to provide to industry?

Answer: The Inspection Acts require USDA to supply inspection services to eligible plants requesting them. However if sufficient funding is not available to provide all the inspection that the industry requests, then the agency cannot meet this requirement. The Anti-deficiency Act prohibits the agency from obligating funds in excess of budget authority provided by Congress. Early in FY 1986, after the impact of Gramm-Rudman became known, it appeared that the agency would over obligate if it met all incoming requests for inspection and would be in violation of the Anti-deficiency Act. Although that shortfall has eased, it is still the agency's policy to reserve the possibility of limiting added inspection demands, such as for overtime, new plants, or plant expansions.

Question: I understand States are prohibited from assessing fees for meat and poultry inspection. Has legislation been proposed to authorize States to charge for meat and poultry inspection?

Answer: A legislative proposal on the agency's user fee initiative is now under review at OMB. The initiative would allow States to charge user fees for meat and poultry inspection.

Question: How many states have turned over their inspection programs to USDA?

Answer: Since legislation was enacted, 27 States have designated their poultry inspection program and 23 States have designated their meat inspection program. The following chart lists these States and the reason for designation.

DATES USDA ASSUMED INTRASTATE INSPECTION

State	Meat	Reasons for Designation	Poultry	Reasons for Designation
Arkansas	6/01/81	C	1/02/71	D
California	4/01/76	C	4/01/76	C
Colorado	7/01/75	C	1/02/71	D
Connecticut	10/01/75	C	10/01/75	C
Georgia			1/02/71	D
Idaho	7/01/81	C	1/02/71	D
Kentucky	1/14/72	B	7/28/71	B
Maine	5/12/80	C	1/02/71	D
Massachusetts	1/12/76	C	1/12/76	C
Michigan	10/03/81	C	1/02/71	D
Minnesota	5/16/71	B	1/02/71	D
Missouri	8/18/72	C	8/18/72	C
Montana	4/27/71	B	1/02/71	D
Nebraska	10/01/71	B	7/28/71	B
Nevada	7/01/73	C	7/01/73	C
New Hampshire	8/07/78	C	7/01/78	C
New Jersey	7/01/75	C	7/01/75	C
New York	7/16/75	C	4/11/77	C
North Dakota	6/22/70	A	1/02/71	D
Oregon	7/01/72	C	1/02/71	D
Pennsylvania	7/17/72	B	10/31/71	B
Rhode Island	10/01/81	C	10/01/81	C
South Dakota			1/02/71	D
Tennessee	10/01/75	C	10/01/75	C
Utah			1/02/71	D
Washington	6/01/73	C	6/01/73	C
West Virginia			1/02/71	D

A - Failed to Develop Program

B - Failed to Meet "Equal To" Requirements

C - Voluntarily Discontinued Program Due To Funding Problems

D - In 1971, voluntarily requested designation of intrastate poultry plants: either because the State had limited intrastate poultry or was concentrating efforts in developing an intrastate meat inspection program.

Question: If states operate their own inspection programs, do they receive the 50 percent Federal contribution and will they continue to receive it under the agency's user fee plan?

Answer: Currently, half the cost of each State operated inspection program is funded by FSIS. Under the user fee plan the states would be responsible for full funding of their programs either thru appropriations, user fees, or some combination of the two.

Question: What incentives exist to encourage States to implement their own inspection programs?

Answer: Since the passage of the revised inspection acts in the late 60's, States have had the option of operating programs equal to the Federal, with half the costs paid by USDA. In the almost twenty years since that legislation, more than half of the States have continued their inspection programs. We believe that these States value the continuance of a local program responsive to the needs of the usually smaller plants operating under intrastate inspection.

QUESTIONS SUBMITTED BY SENATOR KASTEN

FSIS AND FDA INSPECTION

Question: I'd like to ask a broader question of Mr. Tracy or Mr. Houston. FSIS and other USDA agencies inspect some food, the Food and Drug Administration inspects some others. Wouldn't it make more sense to have all food inspection services done by the Department of Agriculture?

Answer: If one were designing a national food inspection system from the beginning, one would consider unifying the programs in a single Department. The programs of USDA and FDA, however, formed at different times and in response to differing needs. The laws governing the operations of the two agencies differ fundamentally. The meat and poultry inspection acts require the constant presence of federal inspectors in plant operations. In slaughter operations each carcass must be inspected by a Federal employee. In processing plants, Federal inspection is required during each shift of production. The Federal Food, Drug, and Cosmetic Act empowers FDA to review food manufacturers, to the extent and in a manner necessary to assure plant adherence to mandatory good manufacturing practices. In addition, food coverage is only a portion of the inspection responsibilities of FDA. Inspection assignments often include a myriad of drug, medical device, and food establishments.

Although there could be benefits from unifying the organizations of the national food inspection agencies, the problem created by differences in approach should not be underestimated. For the present, officials at USDA and FDA appreciate both the differences and the similarities of the respective agencies' responsibility, and we work together very well on common problems.

GRAMM-RUDMAN IMPACT

Question: As you know, Wisconsin is one of the largest meat-packing states in the country. I'm very concerned about the effect of automatic reductions on meat inspection services. Could you summarize what you think the impact of the reductions has been so far, and in particular, if you think the quality of meat inspections is being jeopardized?

Answer: Inspection personnel have been particularly hard hit by the continuing sequence of cost reduction measures. Employees morale has declined as a result of the freeze, the need of employees to double up on assignments, the impending 3-day furlough, and elimination of over 400 inspection assignments from the implementation of the Streamlined Inspection System in poultry slaughter. The industry has also been impacted as evidenced by the delays of inspection service for new and expanding plants and the pending denial of overtime service as a result of Gramm-Rudman-Hollings.

In addition, we have had to postpone most of our efforts to continue our modernization of the agency. These include the introduction of data systems for record-keeping, product control, and management of inspection; developmental employee training; introduction of food technologists into the field workforce; the development of new laboratory analytical methods; and widespread reviews of the program.

Nevertheless, we have been able to maintain coverage of the most critical in-plant inspection assignments, and the quality of meat and poultry inspection remains the best in the world.

Question: Also, would a more flexible system of discretionary inspections make it possible to do more with less money?

Answer: USDA first presented a proposal for more flexible processing inspection to Congress in 1982. We are presenting a revised proposal this year. If enacted, the legislation would save the agency about $2 million in its first year, with increasing savings until the current processing force is reduced to about one-half of its present strength while affording an inspection system that would maintain the assurances of a safe and wholesome supply of meat and poultry products.

QUESTIONS SUBMITTED BY SENATOR SPECTER

USER FEE ASSESSMENT

Question: The 1987 Budget proposes to shift funding for meat and poultry inspection activities to user fees. How will these fees be assessed?

Answer: User fees for domestic slaughter and processing activities will be assessed on a per carcass basis and will be billed to the slaughter location. The estimated per carcass charges are approximately $3.24 for cattle, 75 cents for calves, 90 cents for hogs, 2 cents for young chickens, and 11 cents for turkeys. We believe that this system would allow the market to function naturally, passing costs along from slaughterer to processor and on through the marketing chain.

User fees for import inspection would be assessed on the basis of hours of inspection, and would be billed to the importer. We would also retain an hourly charge for overtime inspection activities.

Question: Will there be a fee difference between slaughterers and processors and between red meat and poultry users? If so, how much will the difference be?

Answer: Under the user fee schedule FSIS would propose, fees for both slaughter and processing are to be charged to the slaughter location. This method would establish a fee to be collected from slaughter plants based on the total costs of domestic inspection and the production volume at slaughter. Collecting these fees at slaughter would allow the fees to be based on the total domestic production of fresh meat and poultry before these commodities are further processed into products containing widely varying amounts of livestock and poultry ingredients. This system depends on the market to distribute the costs among processors in proportion to their purchase or use of meat and poultry ingredients. FSIS found this method based on volume of production to be the most equitable means of assessing user fees as it most closely reflects the distribution of benefits from inspection and avoids penalizing small firms for inspection inefficiencies which are not under their control. Cattle slaughter operations would be assessed $3.24 for each carcass while chicken slaughter operations would be assessed 2 cents per carcass.

Question: What will importers and exporters be charged for inspection services?

Answer: User fees for import inspection will be assessed on a basis of hours of inspection and billed to the importer. As is currently the case, the intensity of inspection will vary according to a foreign plant's compliance history. The expected charge per hour will be $48.47. It covers not only basic inspection costs, but also all other expenses associated with our import inspection program -- including foreign plant review and laboratory testing of samples.

Product intended for export is now inspected in the regular program funded by appropriation, but any extra inspection or certification required by the importing nation is charged by the hour in our current trust fund program. With a change to user fee, export product would be treated as domestic product--that is, fees levied by carcass at slaughter with any extra inspection and certification at hourly fees.

Question: Under your grants-to-states program, will the State or the Federal government collect the fees? Will these fees be higher or lower than federal fees in states without a state program?

Answer: Federal grants to state inspection programs will be eliminated in the user fee program. The 27 States that now operate their own program will have to increase State appropriations or initiate their own user fee programs. But if any choose to relinquish their State programs, the Federal government will have to pick up the burden. These former State inspected plants would be subject to the same fees as other federally inspected establishments.

Question: Will an advisory board be established consisting of industry users to provide oversight on those programs?

Answer: The Agency now has the Meat and Poultry Inspection Advisory Committee with representatives from industry, trade associations, consumer groups and academia from which advice is solicited on all aspects of the inspection programs. This advisory committee would continue its functions after implementation of the proposed user fee programs.

Question: User fees would increase U.S. product costs and could make U.S. meat and poultry less competitive in world markets? Have any studies been done which show the impact of user fees on U.S. meat and poultry exports?

Answer: Although we have not conducted a study on the impact of the user fee proposal on meat and poultry exports, we believe the impact would be insignificant. If all inspection costs were passed on to the exporter, the price per pound would rise by only a fraction of a cent.

Question: The user funded grading programs of the Agricultural Marketing Service have been given the authority to invest cash balances in collateralized or insured interest-bearing accounts. In FY 1985, these accounts earned nearly $2 million in interest, which reduced the need for fee increases in these programs. Does your user fee proposal also include language which would permit investment in interest-bearing accounts?

Answer: The Agency's user fee proposal does not include any language to permit investment in interest bearing accounts.

Question: In FY 1986, deficit reduction efforts appear to be causing disruption in smooth, uninterrupted inspection coverage, especially for overtime, new shifts and new plants. If fees are approved will these user fees be subject to Gramm-Rudman reduction?

Answer: Yes, as the Balanced Budget and Emergency Deficit Control Act reduction applies to all funds, regardless of source.

Question: With increasing pressure to reduce costs in a personnel intensive operation, what efforts are being made to ensure that short cuts are not made which reduce consumer health protection?

Answer: Since the agency is personnel intensive, our first move to reduce 1986 resource needs was to reduce personnel costs by imposing a hiring freeze. During the freeze, the inplant positions most crucial to consumer health have been kept staffed, which required us to delay providing services to some new or expanding plants. We also reduced the travel budgets of administrative and support personnel while providing inspectors with the travel authority needed for their jobs. Similarly, training was eliminated, except for that needed by in-plant inspectors. Both contracts and equipment purchases have been cut back heavily. Early in the fiscal year, we determined, on the basis of comparison studies of poultry slaughter revisions, that a revised inspection procedure for young chickens could allow us to eliminate over 400 positions without a loss in public protection. That change was made on an emergency basis early in January. Finally, we plan to furlough all our employees on days when few plants would normally be operating --the three remaining holidays in the fiscal year.

RESIDUES IN IMPORTED PRODUCTS

Question: Foreign countries still permit the use of a number of chemicals and pesticides which are banned in the U.S. What efforts are being made to ensure that pesticide residues in imported meat and meat products do not reach commercial channels?

Answer: It is true that some foreign countries are using chemicals not permitted in the United States. Our import inspection program is designed to ensure that no residue of these chemicals is in the product imported into this country. The program requires that each eligible exporting country maintain a residue control program to prevent the export to the United States of meat and meat products adulterated with residues. For each such control system, FSIS gathers basic information and checks control results in order to make a determination that the program can be judged equal to that in the United States. In making this determination, FSIS obtains information on drug and pesticide availability, existing mechanisms for control, and use patterns. FSIS reviews each country's analytic methods, laboratory procedures, sampling programs, investigative procedures, and results to assure that the residue program is satisfactory. FSIS personnel regularly monitor all activities of foreign inspection systems through periodic, on-site reviews.

In addition, the program monitors imported product on a sampling basis when it arrives at U.S. ports of entry. One element of this inspection is residue testing. In 1985, 9,361 residue analyses were performed on imported products, with 10 failures. When a failure occurs, products are subjected to hold and test procedures plus intensified sampling and testing until it is demonstrated that the problem has been corrected.

If a country appears to be unable to operate an effective program for any aspect of inspection, including residue control, that country may lose its eligibility to export to the United States. Such a situation occurred several years ago when Czechoslovakia had a persistent problem in controlling PCBs. The country's eligibility was removed until USDA was satisfied that an effective residue control program was re-established.

FSIS groups chemicals into three broad classes: Chlorinated hydrocarbons, Organophosphates and Carbamates. Carbamates have not been a residue problem in the meat and poultry produced in the U.S. or foreign countries that export meat and poultry products into the United States.

Because organophosphates are very rapidly metabolized, we do not expect to find this residue in meat or meat products imported into this country. The import monitoring of organophosphate's will continue in products from all animal species to ensure that countries of origin have adequate control programs concerning the use of these compounds.

In our regular residue monitoring phase for the domestic and import program, samples are regularly checked for chlorinated hydrocarbons. If an unidentified peak is found in the testing, the chemical is isolated, studied, and efforts are made to identify the compound.

Cyromazine (Larvadex), an insect growth regulator used in livestock and poultry feed, is used more extensively in foreign countries than in the U.S. It also is routinely monitored in all imported meat and poultry products, to ensure that pesticide residues in imported meat and meat products do not reach commercial channels.

USER FEE COLLECTIONS COST

Question: How much will the additional cost of billing and collection add to program costs?

Answer: The added cost for audits, billing, and collection under the recommended system would be about $1.5 million annually. This is covered in greater detail in the user fee study provided for the record.

BUDGET REDUCTION TARGETS

Question: I understand that in order to meet certain budget reduction targets the Food Safety and Inspection Service (FSIS) has reduced the availability of inspection services. Since a plant cannot operate without inspection, this could result in the idling of plants and equipment and the loss of thousands of jobs in the farm sector which is already economically depressed. Rather than imposing changes which could harm the economy and reduce jobs, isn't it possible to reconcile the important goals of deficit reduction and public safety in such a manner as to avoid this result?

Answer: Under current law, the agency has little flexibility in deciding the availability of inspection services. In slaughter plants, federal inspectors must inspect every carcass. In processing plants, federal inspectors must make at least daily visits. Consequently, there is little opportunity under current law to make significant reductions in the requirements for inspectors. Thus the Gramm-Rudman reductions of fiscal year 1986 have had a serious effect on the inspection program's capacity to provide inspection.

Neverless, there are still a number of steps being promoted or considered by the Agency which would lower program costs while maintaining the assurance of food safety. In January, we introduced a more efficient poultry inspection procedure whose effect has been to reduce our dependence on less than full time inspectors while freeing experienced inspectors for reassignment. We are soon expecting the results of a National Academy of Sciences study, following up last year's NAS report, which may enable us to recommend changes to the Congress in the present requirements for bird-by bird inspection. We have also submitted proposals to the Congress replacing the present legislative requirement for daily processing inspection with descretion inspection frenquency based upon plant compliance and public risk.

QUESTIONS SUBMITTED BY SENATOR BURDICK

FURLOUGH SAVINGS

Question: Mr. Houston, you are proposing to furlough all FSIS employees for three days, or a maximum of 24 hours, in order to meet the cuts required by Gramm-Rudman. How much money will this furlough save?

Answer: The proposed three days of furlough will save the Agency $2.6 million.

Question: Is that the amount that will be needed to avoid the furlough?

Answer: The Agency has identified a need of $4.5 million in additional funds for FY 1986. Of this amount, $2.6 million is needed to cancel the 3 days of furlough.

Question: The first furlough is set for Memorial Day. What is the latest date money can be made available to avoid that furlough?

Answer: In order to avoid the furlough, the money must be available by May 26, the first of the remaining Federal holidays.

Question: In addition to the furlough, you have notified the industry that you expect to be unable to provide any overtime inspection for the rest of this year. Is that still true?

Answer: The meat and poultry industries will be able to continue overtime inspection services without restriction until the Agency reaches the reimbursement limit of $37.4 million, mandated by

Gramm-Rudman-Hollings. This is expected to occur about September 12, 1986. In addition, holiday work while the Agency is furloughing all employees, will be denied.

DAIRY BUY-OUT PROGRAM

Question: As you know, the whole herd buy-out program now in force means that an additional 1.6 million cows will be slaughtered than under normal market circumstances. I am concerned that these operations be conducted under proper inspection. Do you have the resources and have you planned for the extra load in your budget request to accommodate the dairy buy-out program? Do you expect to need a supplemental appropriation for either 1986 or 1987 for the Dairy Program?

Answer: The requested fiscal 1987 budget for FSIS would permit sufficient inspection to cover requirements of the dairy buy-out program. The resources identified as needed for 1986 would permit any anticipated 1986 increased production. There may, however be additional overtime costs that would increase the dilemma we are facing in that account.

Question: The slaughter of these dairy cows will be carried out under inspection, won't it?

Answer: As the cattle herds are intended for human food, their slaughter would have to be conducted under inspection.

QUESTIONS SUBMITTED BY SENATOR SASSER

INSPECTION COVERAGE

Question: I understand that FSIS has indicated that within its current budget it cannot provide mandated inspection services to new or expanding meat and poultry plants. Is this true? Are there specific instances of plants that are presently unable to operate due to a lack of funding for inspectors?

Answer: During the first half of this fiscal year, FSIS notified new and expanding plants that the Agency did not expect to have the resources to provide them with inspection. Because of recently enacted legislation affecting employees pay, a limited early retirement option, and the holiday furlough that we are planning, we will be able to hire the inspectors needed to staff new or expanding plants during the rest of the year. Although some plants had to postpone opening or expanding early in FY 1986, we now plan to provide inspectors for them.

USER FEE PROPOSAL

Question: Could you please explain why, if there are currently insufficient funds available to run inspection services, FSIS has not requested any federal funding for this function in FY 1987? Does this mean that all of the funding for inspection services in FY 1987 is to come from the proposed User Fees Program?

Answer: The user fee program proposes legislative changes which will permit collection of fees to recover 100 percent of the cost of the program. Also, the budget submission identifies a 1987 requirement for $365.8 million in appropriated funds to carry out the inspection program under current laws.

Question: As you are no doubt aware, the meat and poultry industries are very concerned about the administration's proposed user fee program. Given that Meat and Poultry Inspection is a mandatory program designed to benefit the consumer, do you believe that industry should pay for the entire cost of the program?

Answer: The rationale supporting USDA's proposal for a user-paid inspection service is summed up in OMB Circular A-25:

"Where a service (or privilege) provides special benefits to an identifiable recipient above and beyond those which accrue to the public at large, a charge should be imposed to recover the full cost to the Federal Government of rendering that service. For example, a special benefit will be considered to accrue and a charge should be imposed when a Government-rendered service...provides business stability or assures public confidence in the business activity of the beneficiary..."

The assurance of a wholesome product, which inspection affords, is clearly a factor in establishing public confidence in the meat and poultry industries. It benefits not only the slaughterers and processors, but also the producers as well as consumers. Under our user fee proposal, the cost of inspection will be paid by these beneficiaries.

Question: I am interested in a point you make in your testimony regarding the user fee program. You state that the basic integrity of the inspection program will be unaffected. Don't you think that the public might be wary of a public health program being carried out by industry-paid inspectors? Might that not be eroding the program's integrity?

Answer: The inspectors would not be industry paid. The employment, supervision, rating, promotion, and pay of USDA inspectors under a user-paid program would remain exactly as they are now, completely in federal hands. For many years, overtime inspection has been industry-paid without causing any loss of confidence in inspection.

DAIRY TERMINATION PROGRAM

Question: I have received many calls and letters regarding the use of jaw branding for cows destined for slaughter under the dairy buy-out program. Could you tell me why the administration decided on this method of identification instead of either ear tags or tattoos?

Answer: A variety of methods for identifying those dairy cattle to be disposed of through slaughter or export under the Dairy Termination Program were considered, including both the use of ear tags and tattoos. In selecting a method of identification, it was essential that the adopted method be permanent, visible, and recognizable. Ear tags did not meet these criteria because they may be readily removed, either accidentally or deliberately. Tattoos, meanwhile, are not visible from a reasonable distance and may be altered or removed.

Therefore, it was determined that only by branding could the dairy cattle be identified in a permanent, visible, recognizable way. The location of the brand on the jaw was chosen because the jaw is reserved for identification by regulatory agencies in most States where brands are registered. If other locations on the animal were used, there could be conflict with registered brands. Also, a jaw brand is more visible than a brand in other areas.

On April 18, it was announced that producers would be allowed to choose the alternative of freeze branding or hot-iron branding. If the hot-iron method is chosen by the producer, it is strongly recommended that an electric, thermostatically-controlled branding iron be used. This would provide uniform heat and would result in a better brand with less chance of accidental injury to the cattle.

Question: Do you think the animals suffer while being jaw branded? Would they suffer less by any other method?

Answer: Yes, it is acknowledged that branding, regardless of whether it is freeze or hot, results in some pain to the animal. We suggest that the dairy producers consult a veterinarian to desensitize the area to be branded. Regardless of the method of identification used, however, there will be some pain or discomfort to the animal.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

HEPTACHLOR CONTAMINATION

Question: Dr. Houston, as you know, heptachlor contamination is literally devastating both the dairy industry and the beef industry in Arkansas. When the contamination was discovered, FSIS reviewed the sales records of Valley Feeds to determine who had possibly purchased contaminated feed, and lists were sent to all slaughter houses and sale barns identifying those who had made purchases from Valley Feeds within the past 18 months. Their cattle were to be quarantined. Valley Feeds' records were limited to 1983 and 1984, however, so only the cattle that had been fed grain purchased during the latter months of 1984 could be identified. After sending those lists, FSIS has done no follow-up work. As a result of FSIS's action, those cattlemen have virtually been put out of business. Major buyers are now refusing to buy any Arkansas cattle. Don't you agree that FSIS has a duty to follow up on its initial actions and try to determine what specific herds should be isolated to avoid damaging the entire state's industry?

Answer: We do have a responsibility to determine what specific herds have been contaminated with heptachlor so that these can be isolated without damaging other producers. The agency has been involved in such an effort since March.

Question: Can't FSIS send in a task force to provide this assistance?

Answer: On March 27, a special FSIS task force was dispatched to Little Rock, Arkansas, to identify contaminated herds so that animals from these herds could be controlled through quarantines or other measures. Approximately 20 FSIS program review officers and compliance officers were called in to assist in surveying the farms on the list you mention so that it could be narrowed down to include only those farms with animals known to be contaminated with heptachlor.

Question: What other action is the agency taking to prevent the destruction of the beef industry in Arkansas?

Answer: Surveys have been completed in Arkansas, and the list now includes about 100 farms. We appreciate the importance of minimizing the financial impact of the situation on the industry and have agreed to test biopsy samples collected from representative live animals from contaminated farms so that farmers will not necessarily have to send their animals to slaughter to determine whether they are contaminated.

Question: A serious aspect of this problem is that Arkansas cattle supply a great part of the inventory for the school lunch program. Purchasers of Arkansas cattle to be used for this purpose have sought assurances of safety from the USDA so they could use these cattle in the school lunch program. USDA has not given such assurances. A quick testing procedure to be used at slaughter has also been sought so that individual cases could be isolated and the loss of entire inventories avoided. Another option for assistance is an indemnity. How is your agency addressing this problem?

Answer: USDA cannot assure purchasers of cattle in the affected area that every animal is free of heptachlor residues; that would require lengthy, costly analysis of every carcass. USDA has, however, conducted a sampling program for the residue, is quarantining suspect herds, and will retain carcasses from suspect herds at the plant as necessary.

FSIS sampled school lunch ground beef originating from the three-state area where the heptachlor contamination was identified. Testing for heptachlor was completed by April 24; no violations were detected in any of the samples analyzed.

Question: Because this is a vitally important government program, wouldn't you agree that the government should be willing to provide the testing of samples?

Answer: FSIS has been paying for the testing program to detect heptachlor. At this time, the agency is not certain to what extent it will test school lunch product for the next school year. This decision will be based on the results of the agency's heptachlor monitoring program. There is no quick test for heptachlor, so any testing of samples would have to be performed at a laboratory. The use of biopsies, mentioned above, makes up to some extent for the lack of quick tests.

QUESTIONS SUBMITTED BY SENATOR HARKIN

TOTAL QUALITY CONTROL CRITERIA

Question: I understand that you have been working on the criteria which will determine which TQC plants will be eligible for less-than-continuous inspection. Would you please elaborate upon the status of these criteria and what the criteria will be?

Answer: The proposed legislation submitted by the Department would grant to the Secretary increased authority to determine the amount of the inspection coverage necessary in meat and poultry processing plants to maximize the overall level of compliance with the law. The primary purpose of the proposal is to permit FSIS to more efficiently allocate resources: to reduce inspection coverage where it is possible with no reduction in public protection and to increase inspection where additional resources can reasonably be expected to reduce risk.

In developing the criteria to determine those operations subject to changes in inspectional coverage, we have not established criteria for TQC operations separate from those applied to other processing operations. The basic principle underlying discretionary inspection is that inspection resources should be allocated on the basis of risk presented by the plant. A plant represents two types of risk--one related to management performance; the other is the risk to public health.

To evaluate these risks, two sets of assessment procedures are proposed. The first is an assessment of potential management performance to determine whether a plant is suitable for reduced inspection coverage. This includes an evaluation of compliance records, management attitudes and capabilities, and the plant's system of controls over its production and environment. The second assessment, which has implications for the public health risk presented by the plant and the difficulty of inspecting the plant, includes objective characteristics of the plant. The factors examined during this phase include process and product complexity, volume of production, plant size, type of operation (processing only or slaughter/processing), frequency of operation, and concurrent jurisdiction with FDA. The results of this assessment are used to design the appropriate inspection assignment for the plant. In the process of approving TQC programs in those plants currently operating under that mode of inspection, the factors considered in the first assessment have been addressed for continuous daily inspection. What remains to be done is to predict those plant's performance at levels below continuous daily presence.

The evaluation system will present the opportunity for all plants, whether under traditional or TQC inspection, to demonstrate acceptable management performance. The first and second assessment levels will support the Agency's design of an inspection assignment appropriate to the risk presented by the plant.

Question: How many Federally Inspected Poultry Processing plants are there? Of these, how many are on the TQC system? Of these, how many are strictly poultry processing facilities?

Answer: The table below, based on data for fiscal year 1985, provides the information requested:

Type of Plant	Meat Plants	Poultry Plants	Meat/poultry Plants	Total
Processing	2,230	251	2,524	5,005
Slaughter & Processing	989	130	344	1,463
Total Processing Plants	3,219	381	2,868	6,468
(TQC Plants)	(136)	(24)	(250)	(410)

AGRICULTURAL MARKETING SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

MARKETING AGREEMENTS AND ORDERS FUNDING

Question: Each year the Appropriations bill contains language for Section 32 (funds for Strengthening Markets, Income and Supply) which sets a statutory limit on the amount of funds that can be expended on the administration of marketing agreements and orders. The subcommittee has recently been advised that the proposed limit contained in the budget for fiscal year 1987 is not adequate. What is the revised estimate of the limitation? Will you please explain why this statutory limit needs to be increased? Can the Subcommittee expect to receive official notification of this change?

Answer: As in the past, the Appropriation language for Section 32 (funds for Strengthening Markets, Income, and Supply) contains a statutory limit on the amount of funds which can be expended on the administration of marketing agreements and orders. Because of recently enacted legislation and industry proposals, the proposed limit for FY 1987 is no longer adequate to administer this program.

The 1985 Food Security Act, passed in December 1985, contains several provisions which broaden AMS responsibilities. These provisions include: requiring the Secretary of Agriculture to change the Class I pricing provision of 35 milk orders; authorizing the adoption of marketwide service payment provisions under milk orders; and requiring random spot checks of potatoes entering through the northeastern United States ports of entry to reduce the volume of substandard imported Canadian potatoes entering through these ports.

In addition to these legislative responsibilities, industry submitted a proposed Egg Marketing Order for consideration in September 1985. This order would establish an Egg Research and Promotion Program, authorize the removal of fowl during periods of extreme surpluses, establish a National Egg Board, and assess handlers for the surplus removal program. Hearings on this proposal began in January 1986 and are now completed. An industrywide referendum may be necessary in the near future.

Also, the Food Security Improvement Act, passed in March 1986, mandates timely milk order hearings and prompt implementation of marketwide service proposals that are received from industry proponents.

Because of these new responsibilities, which arose after the FY 1987 budget was prepared, the statutory limit needs to be increased if we are to administer these activities. An additional increase of $874,000 in the limitation is needed to perform these additional responsibilities. The new limitation would now be $7,147,000.

OVERSIGHT OF RESEARCH AND PROMOTION ACTIVITIES

Question: You have oversight and direction for industry-funded research and promotion. Can you give me some idea as to the extent to which you are involved in those activities?

Answer: The Agricultural Marketing Service provides oversight and direction to cotton, honey, beef, pork, potato, egg, wheat and wheat foods, and milk and dairy products promotion programs. It is the responsibility of AMS to review and approve the budgets and projects proposed by the research and promotion boards; to conduct referenda if a change becomes necessary to an order or a plan, and to attend the meetings of the various boards. The Secretary of Agriculture appoints new board members.

Question: What is the general attitude of USDA toward these kinds of programs?

Answer: In order to protect the interests of producers and the public, in general, it is the policy of the USDA to support legislation authorizing commodity research and promotion programs when the language of the proposed legislation is consistent with the following guidelines:

LEGISLATIVE GUIDELINES

(1) Pay total costs incurred by the Federal Government in administering the program, including costs of conducting any referenda.

(2) Be initiated by a one-step referendum of producers (without preregistration) in which two-thirds of the producers voting approve; or in which a majority of producers voting approve as long as their production amounts to at least two-thirds of the entire production represented by all voters in the referendum.

(3) Be administered by a Board appointed by the Secretary: (a) from among candidates representing industry and nominated by industry, in a way and at such times, as prescribed by the Secretary, and (b) from the public at large.

(4) Make prompt refunds to those assessed whenever a refund has been requested in a manner prescribed by the Agency and approved by the Secretary.

(5) Maintain as confidential all information having to do with individual requests for refund of assessments; and avoid any acts which might be construed as discouraging requests for refunds, or which might subject those who request funds to peer pressure, adverse publicity or other influences which might discourage the requesting of refunds.

(6) Make available to the Secretary such information on the conduct of business by the Board and Management of the Board as requested by the Secretary for use in insuring that the interests of those assessed and the general public are protected.

(7) Authorize the Secretary to utilize Administrative Law procedures in enforcing any order which he may issue under that Act.

DISCLAIMER WITH RESPECT TO MARKETING ORDERS

Any part of these guidelines which are in conflict with provisions of the Agricultural Marketing Agreement Act of 1937 with respect to research and promotion programs of marketing orders, do not apply to those programs.

MARKETING ORDER CRITERIA

Question: USDA has formed a task force to develop marketing order criteria and has agreed to revise the operations manual during this fiscal year. This was done so that the merits and shortcomings of marketing orders could be evaluated. What progress has the task force made in developing marketing order criteria? What progress has been made in updating the manual?

Answer: The Department's Economic Research Service has entered into a cooperative agreement with the Agricultural Marketing Service (AMS) to undertake the development of criteria to measure the performance of marketing orders. AMS will provide funding in the amount of $75,000 for the project. Project planning has already begun and completion is targeted for the fall of 1986. The update of the marketing order operations manual is currently underway. This project will be conducted with the assistance of a private contractor and is expected to cost about $15,000.

FEDERAL SEED ACT

Question: USDA will be submitting proposed legislation which would repeal the Federal Seed Act. I understand that some in industry would support USDA in that regard, but feel that 2 aspects -- seed testing and seed certification -- should be retained and continued by the Federal Government. What is AMS's position in this regard.

Answer: AMS is willing to continue its seed testing service on a fee basis under regulations (7 CFR 75) authorized by the Agricultural Marketing Act of 1946. A similar program for seed certification could also be developed under the authority of the Agricultural Marketing Act if demand warranted that it be done.

Question: If these 2 activities are retained, what would be the cost?

Answer: AMS estimates the cost of retaining these two activities will total $216,000. This consists of $136,000 for maintaining a minimum level seed testing service, and $80,000 for a minimum oversight program for genetic seed certification standards. Based on current usage, the cost per seed sample tested would be approximately $100.

QUESTIONS SUBMITTED BY SENATOR KASTEN

RECONSTITUTED MILK

Question: While the dairy whole-herd buy-out will reduce Wisconsin milk production by just over 3%, production in some southern states will decline by over 20%. Some experts estimate that the resulting milk shortage in the South could push the basic Minnesota-Wisconsin price up substantially beginning around August.

It seems obvious that we need to look at ways to make it easier to bring low-cost of production milk from the Upper Midwest to southern and eastern consumers. I'd like your comments on some ideas that have been suggested to do this.

These include emergency standby pools and a new, separate Federal order into which plants would contribute to pay for shipment of milk to milk-deficient areas.

I am particularly interested in the Department's view of deregulating the pricing of reconstituted milk. Over the long term, it seems to me that reconstituted milk has the potential to be a viable way of providing milk to southern and eastern consumers at an affordable price. How does the Department assess the potential of this option?

Answer: The Agricultural Marketing Agreement Act of 1937, under which milk orders are issued, does not authorize a separate milk order solely for the purpose of requiring plants to contribute funds to pay for the shipment of milk to milk-deficit areas. However, a marketing agreement for a voluntary standby pool arrangement is authorized.

During the 1970's cooperative associations operated a voluntary standby pool outside of Government regulation, but disbanded the scheme when milk supplies became abundant in the early 1980's. While operating the standby pool, the cooperatives approached the Department about establishing a marketing agreement for a standby pool. Before any action was taken, they abandoned the idea.

The intent of the higher Class I price differentials that were mandated by the Food Security Act of 1985 was to help assure adequate milk supplies for the southern markets. The increased differentials in these markets will cover much of the cost of transporting milk to such areas from the heavy production areas in the North. It could well be that the increase in minimum Class I prices and resultant increased blend prices in the southern markets, relative to northern markets, will provide an adequate price incentive to attract additional northern milk supplies to the southern market order pools. At most, only modest over-order payments probably would be needed to cover that portion of the transportation costs not reflected in the minimum price structure under the orders. Under these circumstances, there would be little incentive to establish a standby pool.

On the issue of reconstituted milk, complete elimination of regulation of reconstituted milk under Federal order is not an acceptable alternative to most producer groups and fluid milk processors in the industry. In 1981, the Department denied such a proposal. It was concluded that some amount of regulation of reconstituted milk is needed to carry out classified pricing, which is needed in fluid milk markets to maintain orderly marketing.

This is not to say that the present regulatory treatment of reconstituted milk under orders cannot be modified to make reconstituted milk a more viable alternative to fresh fluid milk, and thus a potentially greater outlet for milk products produced in the lower-cost of production areas of the country.

For example, it might be well to consider the possibilities of reducing the compensatory payment rate on recontituted milk. The current rate is the difference between the Class I price and the price of the lowest class, Class III. While the Department has not studied the expected impact of alternatives to the present regulations other than the proposal for complete deregulation, which was found unacceptable, some reduction of the compensatory payment rate may well be workable and acceptable to the industry.

Under the current order provisions, a handler that reconstitutes nonfat dry milk for fluid use incurs the cost of drying the skim milk in addition to the Class I value of the skim milk. Perhaps a viable alternative would be to give some recognition to the cost of drying the skim milk, as is done under the California State milk pricing plan when a handler needs to add nonfat dry milk to fluid milk in order to meet the State's minimum level of nonfat solids in milk. This could amount to a reduction of as much as $1.90 per hundredweight in the amount of the compensatory payment rate. The current cost of 9 pounds of nonfat dry milk exceeds the Class III skim milk price per hundredweight by about $1.90. A hundredweight of skim milk yields 9 pounds of nonfat dry milk.

Another alternative might be to consider a compensatory payment rate equal to the lowest Class I price differential under the order program, beginning May 1, 1986, $1.20 under the Upper Midwest order. This would recognize the cost savings in transporting milk in dry or concentrated form rather than in fluid form. This rate could lower handlers' costs for reconstitution in high-priced markets. At the same time, the rate would reflect the minimum price necessary to attract Grade A milk to manufacturing plants in the Upper Midwest for conversion into Grade A products, nonfat dry milk, condensed skim milk, which can be reconstituted. For example, this lower compensatory payment rate of $1.20, when added to the $1.90, could make it less costly for a handler to reconstitute in those markets where the Class I differential exceeds $3.10. Eight markets will have Class I differentials that exceed $3.10 after the higher mandated differentials become effective.

A further modification of this latter alternative would be to follow transfers of nonfat dry milk for reconstitution and price milk in such use at the Class I price in the originating market as is done in the case of transfers of fluid milk. This would enable producers whose milk was used for reconstitution to receive the payment. Currently under orders, the compensatory payment accrues to producers in the market where the reconstitution takes place.

Federal orders now assign reconstituted milk first to the nonfluid uses of a handler, down-allocation. Reconstituted milk in excess of a handler's nonfluid uses is assigned to Class I and the handler is assessed a compensatory payment. Consideration could be given to allocation provisions that would provide a greater economic incentive to use reconstituted milk in Class I.

Any action to amend orders and change the regulatory treatment of reconstituted milk would have to be considered through the hearing process. A well-prepared proponent able to present convincing testimony and economic justification capable of withstanding a legal challenge would be essential.

The Department would consider a proposal to modify the current treatment of reconstituted milk as long as it is one that would tend to effectuate the policy of the Act authorizing milk orders. Preferably, the proposal should come from an industry source subject to the Federal order program.

MILK INSPECTIONS

Question: I am especially concerned about milk inspections. Besides problems of sanitation and contamination, there is the question of solids-not-fat standards. I'm concerned that F.D.A. has neither the manpower nor the inclination to assure that the American consumer consistently gets milk that is up to Federal S.N.F. standards. The dairy farmers of my state generally think those standards should be raised--but first, the existing standards need to be enforced. I am interested in working with the Department to reform food (and especially milk) inspection, to assure adherence to appropriate quality standards. What is the Department's attitude toward this matter?

Answer: We share the view that enforcement of existing fluid milk composition standards should precede efforts to raise standards.

A Congressionally mandated study conducted by USDA's Economic Research Service indicated that the record of compliance with the Federal fluid milk composition standards in recent years has been disappointing. Also, a comprehensive study in 1982 conducted by a market administration service unit found that compliance with standards of identity for fluid milk in 15 Federal order markets in the central United States was lax. In contrast, California has fluid milk composition standards higher than the Federal standards, and the compliance level is estimated to be at least 80 percent. However, to maintain an enforcement system in the United States structured like California's would increase overall budget costs considerably.

At the Federal level, FDA is organized along national lines and is responsible for administering and enforcing Federal composition standards that apply to fluid milk products moving in interstate commerce. However, individual States have responsibility for administering and enforcing composition standards for fluid products sold within their State. Reforms in inspection should be initiated at these levels.

QUESTIONS SUBMITTED BY SENATOR SPECTER

PROPOSED USER FEES

Question: In FY 1987 you are proposing that the market news, egg product inspection, standardization, export fruit, market development and assistance, and marketing agreements and orders programs be converted to user fees. Have you conducted any studies which show how these fees will impact the users and the general public?

Answer: Although no formal studies indicating how these fees will impact the users or general public have been conducted at this time, it is anticipated that the assessments of fees for these services will have minimal impact.

MARKET NEWS USER FEES

Question: User fees are usually assessed to direct beneficiaries of the service provided. Who will pay the user fees for market news and what direct benefits do they receive from this service?

Answer: User fees would be assessed to first handlers for each commodity. First handlers are shippers, grower-shippers, cooperatives, wholesalers, chain-store receivers or others who deal directly with farmers. The direct benefits they receive from this service is timely, accurate and unbiased market information on various agricultural commodities. Such information assists them in making daily purchase and sale decisions and with future planning.

USER FEES FOR STANDARDS

Question: You are proposing to add commodity standards to the grading fee. What will be the impact on service users of this change? Are there not benefits of a general nature that commodity standards provide?

Answer: The addition of commodity standards costs to grading fees will have minimal impact on users. In FY 1987, the average increase to grading fees would be approximately 3.3 percent. Only those costs that can be directly associated with commodity grading programs are proposed to be user funded. The public derives benefits from the development of standards used in commodity grading through the marketing system and the assurance of quality that the standard and grade represents. However, the direct beneficiaries are clearly identifiable as the buyers and sellers of the commodities and therefore, these users would be charged fees to cover the development and revision of grading standards.

SECTION 32 PURCHASE OF MUSHROOMS

Question: The Section 32 surplus removal program has operated very efficiently to remove burdensome supplies from market channels and to provide wholesome, nutritious food to child nutrition programs. The Pennsylvania mushroom industry is currently suffering from burdensome supplies of processed mushrooms. Given the many uses and nutritional value of mushrooms, can anything be done to provide some help to an industry hard-hit by increasing imports?

Answer: Over the past twenty years, production, consumption, and prices for processed mushrooms have steadily increased. The level of production has gone from 165 million pounds annually to 595 million pounds, and average grower prices from 35 to 83 cents per pound. Justification of a surplus removal purchase of canned mushrooms has never been attempted because of their extremely low rate of per capita consumption and high unit cost. The possibility of finding outlets for substantial quantities of mushrooms is slim.

Schools could be expected to accept extremely limited quantities if processed mushrooms were offered under their Section 32 entitlement funds or as a bonus commodity purchased with Section 32 contingency funds. Mushrooms are a relatively high-priced food product that has a low popularity with school children, which would limit the usefulness of mushrooms for school lunches. No State advisory council has ever recommended to the Department of Agriculture that mushrooms be purchased for school use.

MARKETING ORDERS AND AGREEMENTS ADMINISTRATION

Question: A number of new requirements for the AMS marketing agreement and order program were included in recent legislation. Will any additional funding and staffing be needed to implement these provisions? Does the statutory limit for this program need to be raised before this program can be implemented?

Answer: In order to comply with the new requirements mandated by the 1985 Food Security Act and the Food Security Improvement Act of 1986, as well as to consider a nationwide egg marketing order, AMS needs an additional $875,000 and 19 staff-years in the Marketing Agreements and Orders program. Our statutory limitation contained in the Section 32 appropriation language should be raised to a new level of $7,147,000.

WHOLESALE MARKET DEVELOPMENT PROGRAM

Question: You are proposing to eliminate the wholesale market development program. What evidence do you have that state and local sponsors would have the expertise and funding to meet their wholesale market needs? Please provide a list of studies conducted by USDA to document the position that state and local sponsors can meet their own market needs.

Answer: It is anticipated that state and local sponsors willing to assign sufficiently high priority to wholesale market projects would fund regional and local activities if Federal funding is unavailable. While no specific studies have been conducted, most of the projects under the wholesale marketing development program are conducted in cooperation with food industry groups and associations, state and local governments, colleges and universities, and others interested in improving food distribution. This corps of local experience could be expected to provide a base for local initiatives.

PAYMENTS TO STATES PROGRAM

Question: Since 1946 the Payments to States program has proven to be a cost-effective way of leveraging federal applied marketing research funds. Your reason for proposing program elimination is that these projects are of a local marketing significance. However, most of the actual projects funded seem to be national significance, electronic grain marketing, electronic cotton marketing, standards for range-finished lambs, and similar projects. Why do you continually propose the elimination of this program?

Answer: While it is true that some projects funded by the Payments to States program do have nationwide application, others are local or statewide in scope. Nonetheless, it is felt that money for applied marketing research projects should not come from the Federal level and that private foundations or the local jurisdiction most likely to benefit from the success of a project should absorb its development cost.

The Payments to States program has served its purpose well in helping to develop ongoing state marketing service programs by providing matching funds to test promising ideas for state marketing work. It should be noted that when this program was established, state departments of agriculture provided only limited marketing services. In recent years, most state departments of agriculture have created marketing divisions or staffs with greater capability to carry out priority projects. The termination of this program will induce or encourage states to use their own funds to test new marketing concepts or to rely more on the private sector to test new ideas.

CLOSING REMARKS

Senator COCHRAN. I think this has been an excellent hearing, and I really do appreciate the effort that each of you has made to make it a success, by preparing your statements and reviewing the topics that you know are of interest to members of this subcommittee.

We had a well-attended hearing, and I think you handled yourselves very well. These are tough times. We know we have a lot of problems, and it would be easier to solve them if we had access to more funds. That is what it gets down to.

In many of your areas the funds are used to hire people to do the work; and, obviously, when you do not have the money, you cannot hire the people. It is a very difficult situation that confronts the Department of Agriculture in these program responsibilities.

So, I sympathize with the dilemma that each of you is in, trying to meet the responsibilities imposed upon you by law and to deal with the political pressures which you confront. Then you are hampered by the budget constraints that we have and the effort to reduce the deficit. We are not trying to ignore that, and say that it is not a very genuine problem. It is, and the Government, as a whole, has simply been spending too much money in relation to what it has been taking in for too long, and the day of reckoning has arrived. We just all happened to be here when that day arrived, and we now have to deal with it. It is not fun, but we have to do the best we can.

SUBCOMMITTEE RECESS

This concludes today's hearing. The subcommittee will hold its next hearing on Tuesday, April 22, in this same hearing room. We will then be hearing from representatives of the Soil Conservation Service, the Agricultural Stabilization and Conservation Service, the Office of the General Sales Manager, the Foreign Agricultural Service, and the Office of International Cooperation and Development.

Until that time, the subcommittee will stand in recess.

Thank you.

[Whereupon, at 11:10 a.m., Tuesday, April 15, the subcommittee was recessed, to reconvene on Tuesday, April 22.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

TUESDAY, APRIL 22, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:38 a.m., in Room SD–138, Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Andrews, Mattingly, Kasten, Abdnor, Specter, Burdick, Bumpers, and Sasser.

DEPARTMENT OF AGRICULTURE

STATEMENT OF PETER C. MYERS, ASSISTANT SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT

OPENING REMARKS

Senator COCHRAN. The subcommittee will please come to order. This morning we are continuing our hearings reviewing the President's budget request as it relates to the activities and programs of the Department of Agriculture and related agencies.

This morning we will be reviewing the budget of the Soil Conservation Service and the Agricultural Stabilization and Conservation Service. These programs come under the jurisdiction of Assistant Secretary for Natural Resources and Environment, Peter Myers, and the Under Secretary for International Affairs and Commodity Programs, Mr. Daniel G. Amstutz.

We appreciate very much your being here with us this morning. What we will do is get the statements from our witnesses on the Soil Conservation Service and the conservation activities of ASCS and then turn to a review of international programs. That way, if some of you are involved in just one of those, you will be able to leave to do other things and not have to stay here for the entire hearing. That's one reason we'd like to do it that way.

Before I make any comments about my observations on these programs, we have distinguished Senators here who have to be in three or four different places at once today. We have a lot of hearings going on in the Appropriations Committee. I am going to yield at this point for any comments or statements that others may have.

Senator Andrews.

Senator Andrews. I have no comments, Mr. Chairman.

Senator Cochran. Senator Mattingly.

STATEMENT OF SENATOR MATTINGLY

Senator Mattingly. Thank you, Mr. Chairman. I do have a statement I want to put in for the record. I think you probably have enough witnesses and broad enough areas to cover that you could probably stay here for several days getting all the information.

I do want to express my personal appreciation for the efforts of Dan Amstutz in reference to what you're doing with Dick Lyng in implementing the so-called export enhancement program. I think so far, from what I've seen this year, it's been a success and I want to commend you on that.

I would also like to compliment Peter Myers as he moves from his position at Natural Resources and Environment into the Deputy Secretary slot. I think you will meet some very difficult challenges over there because Secretary Lyng knows the job requirements firsthand and probably will expect no less from you than he did of himself when he held that position in the past.

So I would say, Mr. Chairman, I appreciate once again being here today, and as you well said, there are a lot of meetings elsewhere, so we'll probably come and go during the daytime here. Lots of luck to you all.

[Senator Mattingly's prepared statement follows:]

Statement of Senator Mattingly

I join in welcoming these distinguished individuals before us today, and I look forward to hearing their proposals as well as their answers to the verbal questions which will be posed to them during the course of this hearing. At the outset, I do want to express my personal appreciation for the efforts of Dan Amstutz, the Under Secretary of International Affairs and Commodity Programs. His efforts under the leadership of our new Secretary, Mr. Dick Lyng, in implementing the so-called export enhancement program have made great strides in recent weeks. I know we are all hopeful that the program, which utilizes our Nation's surplus commodities acquired under the price-support programs in an attempt to combat the unfair, predatory subsidies and other repugnant trade practices, will finally force offending nations to bargain in good faith to end these despicable practices.

I would also commend Peter Myers as he moves from his position at Natural Resources and Environment into the Deputy Secretary slot. I might add that this will be an especially difficult challenge, because Secretary Lyng knows the job requirements firsthand and will probably expect no less from you, Peter, than he did of himself when he held the position. However, if your performance to date is any indication, I know we can look forward to working closely and constructively with you for the mutual benefit of American farmers and agri-business in the future.

As indicated, I will have a few questions as we go along. Thank you.

REMARKS OF SENATOR COCHRAN

Senator Cochran. Thank you very much, Senator. As we know, the Soil Conservation Service provides technical assistance and direct funding for soil and water conservation activities including watershed work, resource conservation and development, and related activities. ASCS also has conservation programs and shares in the mission of the Department to try to help conserve these great national resources. It is because they are national resources—public resources in many ways—that the Government participates with individual landowners in trying to help make sure that the important resources—land and water—are conserved, and that they're taken care of and not allowed to dissipate to the point where we lose the national benefit of these important resources.

There are substantial reductions being suggested by the administration for this next fiscal year in many of these programs. Some are identified as not needed any longer.

We are going to keep an open mind. I have every hope that we will do that, even though I am disappointed in some of these suggestions that we're seeing from the administration. We recognize we have serious deficit problems that have to be addressed. We have deficit reduction targets that are in place now under the law that have to be met, or we run the risk of across-the-board reductions that are mandated by law.

So the challenge is very great, and it gives us an opportunity to review every program in some detail to try to determine whether it is worth keeping or not, and to what extent activities of the Federal Government should be funded by tax dollars.

This is a time of careful review, and this subcommittee is intent on doing its part in conducting that review. So with that in mind, let me recognize our first witnesses and proceed to hear what their suggestions and observations are about the activities of these important agencies of our Government.

Let me first recognize Peter Myers, who is the Assistant Secretary with jurisdiction over the Soil Conservation Service. Mr. Myers.

CONSERVATION BUDGET HIGHLIGHTS

Mr. MYERS. Thank you, Mr. Chairman. I would like to submit my written statement for the record and just highlight what I have to say. Before I start, I would like to introduce Mr. Wilson Scaling, who is appearing before this committee for the first time, and is the new Chief of the Soil Conservation Service. He's well-grounded in the Soil Conservation Service, having been a cooperator for years.

I would say, as you have also mentioned, that we are concerned about the deficit, and that's one of the reasons that we've made some rather difficult choices in the Soil Conservation Service budget. We have had to set some priorities for what the Federal Government should do. We know that many non-Federal programs are strong and growing. Many of the States are picking up a large share of the cost-sharing and some of the technical assistance to deal with soil conservation in their own States.

And so we are hoping that in this area the States will be able to pick up a lot of the priorities that we drop to a lower position.

But we do plan to continue a full conservation technical assistance program in 1987 to assure that every conservation district will continue to receive the technical assistance that we think is so critical to aid the farmers and the ranchers on the ground.

The 1987 budget does include some of the same proposals reflected in last year's budget request to terminate programs which have served worthwhile purposes in the past but now have a lower priority.

That concludes my summary, Mr. Chairman, and rather than go into any detail, I will let Mr. Scaling explain the 1987 budget proposals for the Soil Conservation Service.

Senator COCHRAN. Thank you very much, Mr. Myers. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF PETER C. MYERS

Mr. Chairman and members of the Committee, I am pleased to be here today to present the 1987 budget request for the Department's soil and water conservation programs. Before we begin, I would like to introduce Mr. Wilson Scaling, who is making his first appearance before this Committee as the Chief of the Soil Conservation Service. Mr. Scaling is an active rancher, conservationist, and leader in the agricultural community. He has brought a practical perspective to the management of the Soil Conservation Service. He will present a statement in support of the budget, and he and his staff will help me respond to your questions.

NEED FOR FISCAL RESTRAINT

Mr. Chairman, I know we all agree that we need to reduce Federal deficits. The continued health of our economy and the well-being of all Americans depends upon our ability to deal with this issue in a responsible manner. The Congress has shown its resolve to address this persistent problem by the "Gramm-Rudman-Hollings" balanced budget legislation, which is already being put into place. The Administration is equally resolved to seek practical solutions, which must begin with recommendations to the Congress for reductions in spending for Federal programs. This has required us to make some difficult decisions as we put together budget proposals for fiscal year 1987. Priorities have been carefully considered. Some Federal programs which have served worthwhile purposes in the past will have to be scaled back or eliminated. Within the constraints given to us, we chose to put a very high priority on sustaining the current level workforce to provide on-site technical assistance to farmers and ranchers. State and local governments and the private sector will have to assume more of the responsibility for financial assistance in some areas. These changes will not be put into place without some degree of pain, but in the long run, they will contribute to a better life for all Americans.

IMPACT OF NEW CONSERVATION PROGRAMS

Soil and water conservation is a high priority of this Administration. We are excited about the new conservation initiatives authorized by the Food Security Act of 1985. This is certainly historic legislation for the conservation community. For the first time, farm programs will reward conservation and penalize resource exploitation.

The Conservation Reserve Program, when fully implemented, is expected to take 40 to 45 million acres of the most erodible cropland out of production. The sodbuster, swampbuster, and conservation compliance provisions of the Act will bring much needed consistency to USDA programs.

All of these new programs will provide effective and needed incentives which, along with a strong ongoing technical assistance effort, will help us preserve our valuable soil and water resources. These resources have been and will continue to be the foundation of our country's real wealth. These new programs will provide us with additional tools to solve soil and water degradation problems. Highly erodible cropland of questionable productivity will be put in permanent vegetative cover. Strong benefits to soil erosion control, water quality improvement, and wildlife habitat improvement will accrue to the Nation that might otherwise take years to achieve.

1987 BUDGET PRIORITIES

All the good conservation that has been put into place over the past 50 years is the product of a strong Federal, state, and local partnership and the desire of private landowners to be responsible stewards of the land. Nearly 70 percent of the total annual investment in conservation practices applied through the conservation technical assistance program is made by private landowners. Nonfederal conservation programs are strong and growing. State and local governments appropriated $277.7 million for conservation programs in 1986, an increase of nearly 4 percent above the 1985 level. We are especially encouraged to see substantial growth in state cost-share and other programs designated for on-the-ground conservation application work. This is a significant factor contributing to the good conservation progress we are seeing today.

Even in these times of constrained budgets, we recognize the Federal government's continued important role in soil and water conservation. We believe that the technical assistance provided by SCS technicians and soil conservationists working with farmers and ranchers through local conservation districts is the most essential component of Federal conservation programs. Our 1987 budget reflects this priority. We plan to continue a full conservation technical assistance program in 1987 to ensure that every conservation district across this nation continues to receive these services, especially for the requests generated by the new provisions in the conservation title of the farm bill. Supporting programs including soil surveys, snow survey and water supply forecasting, and the work carried out at the plant materials centers would remain in place The 1987 funding request for all these ongoing programs is actually $2.9 million above the 1986 funding level even before the Gramm-Rudman-Hollings cutbacks. This indicates the importance assigned to these programs by this Administration.

Beyond this, the 1987 budget does include some of the same proposals reflected in last year's budget request to terminate programs which have served worthwhile purposes in the past but now have a lower priority. These are primarily the various construction and cost-sharing programs the Department has traditionally offered as incentives for the achievement of various conservation objectives. The proposed reductions in these areas are consistent with the Administration's philosophy of shifting the responsibility of financing the costs of installing conservation measures back to state, local, and private sources and focusing Federal financial assistance on the most seriously eroding areas through the new Conservation Reserve Program. We believe that this is a realistic and responsible approach. It allows us, within limited resources, to continue our wide range of technical assistance and to further concentrate assistance on areas with the most serious deterioration of soil and water resources.

That concludes my statement, Mr. Chairman. Mr. Scaling will explain the 1987 budget proposals for the Soil Conservation Service in more detail. We will be pleased to answer any questions.

SOIL CONSERVATION SERVICE

STATEMENT OF WILSON SCALING, CHIEF

ACCOMPANIED BY:

GALEN BRIDGE, DEPUTY CHIEF FOR PROGRAMS

ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

PREPARED STATEMENT

Senator COCHRAN. Mr. Scaling, welcome to the committee. We're happy to have you here as head of the Soil Conservation Service. We think you're doing an excellent job in that capacity and in the administration. We congratulate you on that. You may proceed.

Mr. SCALING. Thank you, Mr. Chairman. I would like to introduce Mr. Galen Bridge, Deputy Chief for Programs, and would like to introduce into the record the biographical sketches for Mr. Bridge and myself, as we are appearing before you for the first time.

I, like Mr. Myers, will submit a prepared statement for the record. I personally believe very strongly in the mission of the Soil Conservation Service and the need to continue to work to protect our country's valuable natural resources of soil and water.

Throughout the past years we have made significant progress in the achievement of this mission through the joint efforts of State, local, and Federal agencies, and also through the efforts of private citizens. This partnership will continue to serve us well in these times of constrained Federal budgets.

The primary feature of our 1987 budget request is that it includes funding to maintain a full technical assistance program, because that is the mainstay of our agency. I personally am committed to keeping the field office work force strong to work directly, one on one, with farmers and ranchers and other landowners. That's where we have our credibility, and that's where we need to stay, at all possible costs.

I am going to finish there and just open myself for any questions that you all might have.

[The statement of Mr. Scaling and the biographical sketches follow:]

STATEMENT OF WILSON SCALING

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you today as the Chief of the Soil Conservation Service, a position I have been privileged to hold for nearly a year. I believe that the Soil Conservation Service is an important agency dedicated to the mission of conserving our country's soil and water resources. I believe strongly in this mission. I have been an active conservationist for many years as a private landowner and as a participant and leader with my local soil and water conservation district. I have seen first-hand the real progress that has been made through the joint efforts of state, local, and Federal agencies and private citizens. Together, we have saved valuable topsoil, conserved scarce water supplies, improved the condition of rangelands, and provided many other benefits to the people of this Nation. As Mr. Myers mentioned, this partnership has been the traditional strength of soil and water resource conservation, and it will continue to serve us well in these times of constrained Federal budgets.

PROPOSED BUDGET CHANGES FOR FY 1986

I would like to summarize at this point the key proposals contained in the budget request for the Soil Conservation Service. Some changes are reflected which would reduce the SCS budget this fiscal year, 1986. As you know, we have been required to set aside 4.3 percent of our 1986 funds to meet the requirements of the "Gramm-Rudman-Hollings" balanced budget act. This amounts to a reduction of $28.6 million for the Soil Conservation Service. We anticipated a reduction of this magnitude and managed accordingly, so we will be able to avoid serious disruption in the delivery of our program services through the end of this fiscal year. Our workforce will probably be down about 500-600 FTE's by the end of the year, primarily through normal attrition. In keeping with the instructions of this committee, funds have been withdrawn on a pro rata basis from all programs and projects.

The budget also included two rescission proposals for FY 1986 involving funds for Great Plains Conservation Program contracts, and unobligated construction funds under the Watershed and Flood Prevention Operations account. As of April 15 these funds were released for obligation, and we are proceeding with planned work under these two programs.

BUDGET REQUEST FOR FY 1987

The President's 1987 budget request includes a total of $457.7 million for the Soil Conservation Service. This amount includes $350.6 million for continuing the highest priority activities of the Service, substantially more than the $200 million requested this time last year for those same activities. Although a different type of financial assistance will be offered to farmers, we will retain a full technical assistance program on a nationwide basis. This is the mainstay of the agency. I am personally committed to keeping our field office workforce as strong as possible. It is at this level, working directly with farmers, ranchers and other landowners through local soil and water conservation districts, that the SCS has had its greatest impact over the years. This vital work will be continued, even though we have to pull back in other areas.

Along with technical assistance, we will continue to provide soil surveys and snow surveys, and to maintain ongoing work at our plant materials centers. The funding requested for these four programs in fiscal year 1987 is actually $2.9 million more than the amount appropriated in 1986 and before the reductions we are taking this year under Gramm-Rudman-Hollings. About 9,700 SCS staff years of assistance would be retained, or about 70 percent of our current workforce. The proposed funding level will maintain the full buying power of these important programs at historic levels. It will also ensure that we will be able to provide the technical assistance necessary to fulfill the conservation provisions of the new farm bill.

I would like to mention briefly an urgent need for which we are requesting an additional $1 million in 1987. We must replace deteriorating and outmoded parts of the SNOTEL system equipment we depend upon to provide data for water supply forecasting in the Western United States. This system provides data for managing limited water supplies on irrigated cropland and for other water management purposes.

This system was installed in the late 1970's, and much of it is now reaching the end of its expected useful life of 10 years. These automated data collection stations are located at remote mountain sites and operate under the most severe weather conditions. The frequent repairs needed are dangerous and costly. We have put some up-to-date equipment into operation at a few of these sites, and the new equipment has proven to be highly reliable. We need to replace the older equipment currently in place at about 400 of these sites on a planned 5-year schedule to ensure the continued operation of this system. We believe we are facing complete failure of a major portion of this system in the near future if action is not taken. We would appreciate your favorable consideration of this request.

The remaining funds requested for 1987, $107.1 million, are for nonrecurring costs to terminate the remaining SCS programs. These funds would be used to cover severance pay and lump sum payments for the approximately 3,700 SCS employees whose jobs would be terminated in 1987, and for other administrative costs to phase-down program operations in an orderly manner. As Mr. Myers has already mentioned, the proposed reductions are all consistent with the Administration's philosophy of shifting the financing of installation of conservation practices for all but the most seriously eroding areas back to state, local, and private sources. These sources have all shown willingness to pick up at least some of the slack left by the declining Federal role in financial assistance. Strong conservation cost-sharing programs are already on the books in Missouri, North Carolina, and other states. The need to reduce Federal spending is urgent. A consensus on how to do this will not be easy to reach. However, we believe that even with the reductions we are presenting here today, we will be able to maintain a strong, viable conservation effort.

I would like to provide for the record tables which provide a summary of the SCS budget and the contributions of funds and services from state and local governments and other non-SCS sources in fiscal year 1985.

That concludes my prepared statement, Mr. Chairman. With the help of my staff, I will be happy to answer your questions.

SOIL CONSERVATION SERVICE

FY 1987 BUDGET
($ in thousands)

	FY 1985	FY 1986		FY 1987		
	Actual	Enacted	Estimate*	Phase-Down Costs	Continuing Program	Total Request
CONSERVATION OPERATIONS:						
1. Technical Assistance	$283,124	$282,904	$270,859	$ --	$286,036	$286,036
2. Inventory and Monitoring	14,608	12,320**	11,696**	9,689	--	9,689
3. Soil Surveys	54,810	56,681**	54,338**	--	55,360	55,360
4. Snow Surveys and Water Forecasting	3,973	3,949	3,780	--	5,039	5,039
5. Operation of Plant Materials Centers	4,089	4,065	3,890	--	4,147	4,147
6. Resource Appraisal and Program Development	4,316	4,290	4,106	1,725	--	1,725
Total, Conservation Operations	364,920	364,289	348,669	11,414	350,582	361,996
RIVER BASIN SURVEYS AND INVESTIGATIONS:						
1. USDA Cooperative Studies	10,012	10,296	9,855	7,123	--	7,123
2. Flood Plain Management Assistance	3,037	2,453	2,348	1,424	--	1,424
3. Interagency Coordination and Program Formul.	1,857	2,068	1,977	925	--	925
Total, River Basin Surveys and Investigations	14,906	14,817	14,180	9,472	--	9,472
WATERSHED PLANNING AUTHORIZED BY PL-566	8,922	8,868	8,487	6,480	--	6,480
WATERSHED AND FLOOD PREVENTION OPERATIONS:						
1. Watershed operations authorized by PL-534:						
a. Technical Assistance	13,552	17,446	16,696	12,400	--	12,400
b. Financial Assistance for construction	13,872	17,783	17,018	--	--	--
c. Loan Services	193	174	167	--	--	--
Subtotal, Flood Prevention	27,617	35,403	33,881	12,400	--	12,400
2. Emergency Watershed Protection Operations	5,000	44,970	43,032	1,106	--	1,106
3. Small watersheds authorized by PL-566:						
a. Technical Assistance	62,785	62,455	59,772	54,272	--	54,272
b. Financial Assistance for construction	88,044	87,516	83,754	--	--	--
c. Loan Services	397	348	333	--	--	--
Subtotal, Watershed Operations	151,226	150,319	143,859	54,272	--	54,272
Total, Watershed and Flood Prevention Operations	183,843	230,692	220,772	67,778	--	67,778
GREAT PLAINS CONSERVATION PROGRAM:						
1. Cost-sharing assistance	12,476	12,190	10,730	--	--	--
2. Cost-share programming and contract admin.	2,898	2,945	3,121	--	--	--
3. Technical Assistance	6,157	6,267	6,631	--	--	--
Total, Great Plains Conservation Program	21,531	21,402	20,482	--	--	--
RESOURCE CONSERVATION AND DEVELOPMENT:						
1. Technical Assistance	17,679	17,696	16,918	11,400	--	11,400
2. Financial Assistance	8,500	8,347	8,005	--	--	--
3. Loan Services	141	119	114	--	--	--
Total, Resource Conservation and Development	26,320	26,162	25,037	11,400	--	11,400
Subtotal, SCS Appropriated Funds	620,442	666,230	637,627	106,544	350,582	457,126
RURAL ABANDONED MINE PROGRAM	(9,800)	(9,424)	(9,019)	(800)	(--)	(800)
Trust Funds	431	560	560	560	--	560
Total, SCS	$620,873	$666,790	638,187	$107,104	$350,582	$457,686

* Net of 4.3% reduction for Gramm-Rudman. This also differs from the amount reflected in the Explanatory Notes because the proposed rescissions were not approved. The proposed rescissions by fund are: Watershed and Flood Prevention Operations, $60,401; Great Plains Conservation Program, $6,606.

** Reflects reprogramming of $2.2 million from Inventory and Monitoring to Soil Surveys.

UNITED STATES DEPARTMENT OF AGRICULTURE
SOIL CONSERVATION SERVICE

TABLE 7
CPA-4

NATIONAL SUMMARY ESTIMATES - CONTRIBUTIONS OF FUNDS AND SERVICES TO SOIL AND WATER CONSERVATION DISTRICTS PROGRAM FISCAL YEAR 1985 (DOLLARS)

STATE	STATE GOVERNMENT	LOCAL GOVERNMENT	OTHER	FEDERAL NON-SCS	TOTAL
ALABAMA	1,544,200	933,800	1,167,200	6,100	3,651,300
ALASKA	661,508	211,598	274,150	0	1,147,256
ARIZONA	2,143,722	2,854,327	1,947,673	101,500	7,047,222
ARKANSAS	4,127,100	1,927,400	6,270,400	58,000	12,382,900
CALIFORNIA	2,076,000	8,289,000	3,925,000	113,000	14,403,000
CARIBBEAN AREA	2,996,042	829,366	2,215,175	0	6,040,583
COLORADO	335,013	634,393	800,248	39,100	1,808,754
CONNECTICUT	1,682,200	439,400	362,360	0	2,483,960
DELAWARE	2,426,350	703,640	476,390	0	3,606,380
FLORIDA	1,383,100	1,625,200	892,000	25,400	3,925,700
GEORGIA	641,000	3,021,700	1,540,600	97,500	5,300,800
HAWAII	426,939	2,450,510	611,237	30,000	3,518,686
IDAHO	1,221,267	614,200	1,230,941	25,000	3,091,408
ILLINOIS	4,005,465	2,650,763	2,244,991	0	8,901,219
INDIANA	1,265,926	3,920,551	2,345,961	550	7,532,988
IOWA	14,186,839	3,468,743	3,485,498	100	21,141,180
KANSAS	2,731,612	3,923,333	3,203,784	2,300	9,861,029
KENTUCKY	4,420,688	1,538,970	1,169,190	1,800	7,130,648
LOUISIANA	4,865,000	2,340,000	3,433,000	158,000	10,796,000
MAINE	167,585	299,122	484,147	0	950,854
MARYLAND	2,594,393	1,921,412	611,223	0	5,127,028
MASSACHUSETTS	1,734,600	366,800	424,400	47,000	2,572,800
MICHIGAN	3,352,000	2,866,648	1,519,722	409,000	8,147,370
MINNESOTA	7,768,946	6,080,065	2,215,012	0	16,064,023
MISSISSIPPI	415,484	1,711,581	1,814,491	0	3,941,556
MISSOURI	5,351,917	3,073,422	4,789,874	16,850	13,232,063
MONTANA	1,281,604	2,255,483	4,155,901	146,200	7,839,188
NEBRASKA	773,495	12,295,586	943,853	200	14,013,134
NEVADA	25,710	159,024	172,972	1,240,400	1,598,106
NEW HAMPSHIRE	6,010	231,278	308,594	0	545,882
NEW JERSEY	672,546	4,427,646	636,858	0	5,737,050
NEW MEXICO	194,413	665,372	423,805	613,000	1,896,590
NEW YORK	2,868,681	10,434,712	1,776,892	14,096	15,094,381
NORTH CAROLINA	5,300,500	4,152,338	2,009,126	66,990	11,528,954
NORTH DAKOTA	573,439	1,512,912	746,768	0	2,833,119
OHIO	8,854,768	4,885,333	2,974,999	24,000	16,739,100
OKLAHOMA	3,110,327	2,905,969	3,687,449	0	9,703,745
OREGON	737,237	1,116,566	1,799,858	125,940	3,779,601
PENNSYLVANIA	1,160,000	2,955,755	1,556,675	0	5,672,430
RHODE ISLAND	49,050	87,350	47,950	0	184,350
SOUTH CAROLINA	1,894,000	2,134,394	923,680	45,000	4,997,074
SOUTH DAKOTA	119,261	968,856	564,084	69,150	1,721,351
TENNESSEE	527,785	977,011	1,125,200	64,471	2,694,467
TEXAS	1,561,170	4,273,779	2,924,237	10,200	8,769,386
UTAH	4,890,747	9,170,200	277,820	10,000	14,348,767
VERMONT	319,368	34,604	1,825,996	5,000	2,184,968
VIRGINIA	2,893,923	1,183,918	350,359	30,000	4,458,200
WASHINGTON	891,047	1,028,165	834,935	2,000	2,756,147
WEST VIRGINIA	3,214,435	1,891,125	463,630	2,200	5,571,390
WISCONSIN	2,429,304	4,552,948	2,162,228	18,000	9,162,480
WYOMING	206,570	469,500	685,500	19,000	1,380,570
TOTAL:	119,080,286	133,255,800	83,834,916	3,646,055	339,817,137

UNITED STATES DEPARTMENT OF AGRICULTURE
SOIL CONSERVATION SERVICE

TABLE 2
CPA-6

NATIONAL SUMMARY ESTIMATES - CONTRIBUTIONS OF FUNDS AND SERVICES TO
SOIL AND WATER CONSERVATION DISTRICTS PROGRAM
FISCAL YEAR 1985 - (DOLLARS)

STATE	PROG ASSMNT	CONS PLAN	CONS APPL	SOIL SURVEY	SNOW SURVEY	WATERSHED	RC&D AREA	OTHER	TOTAL
ALABAMA	1,463,000	376,100	335,500	494,100	0	173,000	250,700	558,900	3,651,300
ALASKA	703,800	38,800	15,000	124,800	38,002	171,854	0	53,000	1,147,256
ARIZONA	342,400	137,920	1,688,449	140,950	11,600	4,564,650	75,387	85,666	7,047,222
ARKANSAS	3,203,500	809,300	3,330,700	61,200	0	2,559,200	2,203,300	315,700	12,382,900
CALIFORNIA	2,800,000	1,880,000	6,126,000	334,000	1,600,000	1,009,000	204,000	450,000	14,403,000
CARIBBEAN AREA	1,101,588	530,058	3,757,052	0	0	480,760	171,125	0	6,040,583
COLORADO	601,231	211,410	675,531	69,960	21,933	99,665	46,495	82,522	1,808,754
CONNECTICUT	315,860	86,900	108,200	32,800	0	1,355,200	349,200	35,800	2,283,960
DELAWARE	381,300	90,100	749,180	1,000	0	1,095,100	12,050	1,277,650	3,606,380
FLORIDA	847,200	107,600	800,500	1,610,300	0	204,900	196,700	158,500	3,925,700
GEORGIA	1,072,600	414,100	1,281,700	144,100	0	1,500,000	620,400	267,900	5,300,800
HAWAII	193,208	76,610	608,138	61,000	0	2,365,420	126,230	88,080	3,518,686
IDAHO	518,708	368,859	793,415	46,400	15,587	312,400	298,260	737,779	3,091,408
ILLINOIS	2,558,524	1,272,494	2,213,139	1,275,636	0	692,300	713,448	175,678	8,901,219
INDIANA	2,501,817	1,042,141	2,308,102	139,309	0	1,160,148	221,164	160,307	7,532,988
IOWA	4,616,277	399,541	4,614,844	796,118	0	923,455	796,209	8,794,736	21,141,180
KANSAS	2,367,449	866,425	2,442,547	39,784	0	3,609,800	242,603	292,422	9,861,029
KENTUCKY	1,691,093	268,383	1,434,392	224,686	0	174,282	34,008	3,303,602	7,130,446
LOUISIANA	1,910,000	433,000	2,110,000	303,000	0	5,600,000	315,000	25,000	10,796,000
MAINE	290,423	33,277	299,966	40,250	0	37,307	231,106	18,525	950,854
MARYLAND	1,033,030	987,498	1,265,173	43,300	0	87,892	447,192	1,262,943	5,127,028
MASSACHUSETTS	278,900	111,300	310,100	356,200	0	406,300	149,600	960,200	2,572,600
MICHIGAN	1,776,599	633,950	3,611,600	1,136,825	0	593,300	355,096	0	8,147,370
MINNESOTA	1,478,387	1,437,433	2,376,678	1,486,863	0	6,553,563	460,779	2,868,320	16,662,023
MISSISSIPPI	819,369	234,296	1,468,115	37,000	0	926,339	326,321	130,016	3,941,556
MISSOURI	2,495,769	1,299,992	5,820,217	322,410	0	939,664	402,360	1,951,643	13,232,063
MONTANA	1,086,470	1,051,173	3,876,993	336,360	27,900	144,420	957,090	338,373	7,839,188
NEBRASKA	3,198,664	1,033,763	4,362,297	12,200	0	3,798,303	420,289	1,075,396	14,012,134
NEVADA	156,738	27,248	102,338	1,249,400	7,256	24,340	800	30,000	1,598,106
NEW HAMPSHIRE	182,863	59,381	62,560	7,768	0	18,830	32,531	181,750	545,882
NEW JERSEY	718,774	198,616	305,924	1,000	0	3,295,236	616,100	601,400	5,737,050
NEW MEXICO	250,556	96,205	305,196	647,410	3,640	471,112	65,521	56,950	1,896,590
NEW YORK	1,899,394	1,574,970	5,701,932	197,923	0	4,649,876	731,320	338,966	15,094,381
NORTH CAROLINA	2,543,904	651,761	1,923,687	884,327	0	2,109,824	749,741	2,665,710	11,528,954
NORTH DAKOTA	805,013	396,346	931,870	183,494	0	368,617	77,046	170,731	2,933,117
OHIO	3,638,688	2,656,680	4,109,146	1,146,650	0	804,813	260,213	4,122,910	16,739,100
OKLAHOMA	1,350,424	703,062	4,904,600	35,320	0	2,025,364	199,255	485,720	9,703,745
OREGON	868,876	220,521	1,775,523	140,460	16,850	249,074	21,700	487,797	3,779,601
PENNSYLVANIA	3,172,437	1,071,569	1,005,687	4,500	0	98,859	166,569	152,809	5,672,430
RHODE ISLAND	35,000	33,250	25,000	0	0	6,800	54,300	30,000	184,350
SOUTH CAROLINA	1,135,445	342,712	816,960	223,100	0	1,629,200	269,992	579,665	4,997,074
SOUTH DAKOTA	588,657	135,780	608,198	139,100	0	49,850	86,174	114,152	1,721,911
TENNESSEE	874,967	391,463	764,273	194,888	0	342,396	80,479	145,999	2,694,467
TEXAS	1,791,478	775,862	2,465,175	21,950	0	2,763,011	543,463	407,647	8,768,586
UTAH	450,017	130,550	12,882,400	33,700	7,000	728,100	108,200	0	14,348,767
VERMONT	198,676	29,000	1,175,644	35,000	0	390,000	46,000	290,648	2,164,968
VIRGINIA	733,902	150,238	390,633	1,034,646	0	505,293	842,370	801,118	4,458,200
WASHINGTON	322,707	505,847	442,968	86,500	36,075	156,850	640,325	284,785	2,756,147
WEST VIRGINIA	399,050	313,295	339,465	33,750	0	3,586,155	432,775	576,900	5,681,390
WISCONSIN	2,025,749	1,153,042	2,999,822	414,390	0	236,943	80,445	2,252,009	9,162,400
WYOMING	339,020	180,290	430,020	32,340	9,400	10,830	265,590	163,080	1,380,570
TOTAL:	66,251,035	37,978,333	103,652,749	16,688,375	1,784,037	66,063,677	17,997,126	48,309,887	339,817,137

UNITED STATES DEPARTMENT OF AGRICULTURE
SOIL CONSERVATION SERVICE

TABLE 3
CPA-5

FUNDS APPROPRIATED BY STATE AND LOCAL GOVERNMENTS
FOR CONSERVATION PROGRAMS
FISCAL YEAR 1986 - (DOLLARS)

	STATE GOVERNMENT	LOCAL GOVERNMENT	TOTAL
ALABAMA	2,216,000	744,800	2,960,800
ALASKA	489,000	244,200	733,200
ARIZONA	1,578,719	3,341,663	4,920,382
ARKANSAS	3,066,000	553,100	3,619,100
CALIFORNIA	1,740,000	6,257,753	7,997,753
CARIBBEAN AREA	700,000	13,000	713,000
COLORADO	308,468	319,469	627,937
CONNECTICUT	1,719,500	548,260	2,267,760
DELAWARE	5,465,300	283,100	5,748,400
FLORIDA	1,305,000	1,918,500	3,223,500
GEORGIA	2,122,000	3,144,000	5,266,000
HAWAII	226,040	1,899,463	2,125,503
IDAHO	398,800	120,000	518,800
ILLINOIS	11,040,400	3,724,284	14,764,684
INDIANA	1,662,294	2,239,143	3,901,437
IOWA	12,818,455	1,409,064	14,227,519
KANSAS	3,677,566	816,505	4,494,071
KENTUCKY	4,244,800	1,347,000	5,591,800
LOUISIANA	3,800,000	165,000	3,965,000
MAINE	323,042	900,094	1,223,136
MARYLAND	3,778,477	1,737,047	5,515,524
MASSACHUSETTS	3,924,300	1,123,200	5,047,500
MICHIGAN	1,578,000	971,200	2,549,200
MINNESOTA	8,281,657	8,011,544	16,293,201
MISSISSIPPI	93,742	1,047,381	1,141,123
MISSOURI	17,907,900	1,113,000	19,020,900
MONTANA	1,300,543	1,282,455	2,582,998
NEBRASKA	1,341,835	18,964,000	20,305,835
NEVADA	37,100	73,500	110,600
NEW HAMPSHIRE	26,296	226,974	253,270
NEW JERSEY	1,346,403	1,411,038	2,757,441
NEW MEXICO	245,328	400,585	645,913
NEW YORK	3,040,000	16,558,611	19,598,611
NORTH CAROLINA	3,948,533	3,049,369	6,997,902
NORTH DAKOTA	1,185,115	911,200	2,096,315
OHIO	7,168,559	4,206,376	11,374,935
OKLAHOMA	3,336,937	2,570,332	5,907,269
OREGON	382,510	3,362,230	3,744,740
PENNSYLVANIA	936,000	265,000	1,201,000
RHODE ISLAND	59,100	21,600	80,700
SOUTH CAROLINA	2,424,500	1,291,446	3,715,946
SOUTH DAKOTA	249,639	972,201	1,221,840
TENNESSEE	826,651	910,030	1,736,681
TEXAS	2,765,774	7,518,562	10,284,336
UTAH	21,720,950	1,407,200	23,128,150
VERMONT	276,928	3,604	280,532
VIRGINIA	2,708,100	1,675,603	4,383,703
WASHINGTON	718,755	434,055	1,152,810
WEST VIRGINIA	2,049,225	1,036,025	3,085,250
WISCONSIN	5,644,600	6,487,450	12,132,050
WYOMING	293,650	127,350	421,000
TOTAL:	158,498,491	119,248,566	277,747,057

BIOGRAPHICAL SKETCHES

WILSON SCALING

Wilson Scaling became chief of the Soil Conservation Service, U.S. Department of Agriculture, on May 21, 1985. He is the eighth person to head the 50-year old agency.

Mr. Scaling was born on July 14, 1938, in Wichita, Texas. He grew up on the family ranch, which dates back to the 1880's, in Clay County, Texas. He attended Texas Tech University in Lubbock, and graduated in 1961 with a B.S. in animal husbandry. He enlisted in the United States Army Reserves in 1961 and served a six month active duty tour. He was honorably discharged in 1967.

From 1962 until his appointment as Chief of the Soil Conservation Service, he managed the family cow-calf and yearling ranching operation in north central Texas. His farming operation consisted of growing small grain for grazing. He is an active conservationist and a leader in the agricultural community. Under his management, he used conservation practices on the ranch that included proper grazing use, brush management, wildlife habitat conservation, conservation tillage, and windmills and farm ponds for domestic livestock and wildlife.

Scaling brings a broad base of experience from the agricultural and conservation community to the Soil Conservation Service. He is a past director and a member of the Little Wichita Soil and Water Conservation District, a past area director of the Texas Association of Soil and Water Conservation Districts, a member of the National Association of Conservation Districts, a member of the Society for Range Management, a past director and member of the Texas and Southwestern Cattle Raisers Association, and a past director of the J-A-C Electric Cooperative. He is also active in community affairs and is a past president of the North Texas Easter Seal Rehabilitation Center.

Mr. Scaling and his wife Drucilla reside in Washington, D.C.

GALEN S. BRIDGE

Galen Bridge is the Soil Conservation Service's Deputy Chief for Programs.

Mr. Bridge attended the University of Maine where he earned a B.S. in Agricultural Engineering in 1957 and the University of Virginia where he earned a Masters Degree in Public Administration in 1966.

Galen's career in the Soil Conservation Service started in Maine as an agricultural engineer. Before moving to Washington, D.C., he worked in Oregon as the Assistant State Conservationist, in Colorado as the Deputy State Conservationist and in the state of Washington as the State Conservationist. In Washington, D.C., Galen has served as the Director of Conservation Operations, the Assistant Chief for the Northwest and the Deputy Chief for Administration before assuming his current position.

He has been active in professional organizations and has received several awards for his public service. He has been a member of the Soil Conservation Society of America, the American Society of Public Administration and a Fellow in the National Institute of Public Affairs. He has been awarded the U.S. Department of Agriculture's Superior Service Award and the Washington State Professional Service Award.

BUDGET REDUCTIONS FOR WATERSHED PROJECTS

Senator COCHRAN. I think we should proceed with questions on the Soil Conservation Service, and then we could take up the Agricultural Stabilization and Conservation Service and international programs. That may be the way to divide this up.

Senator Andrews, do you have any questions of these witnesses?

Senator ANDREWS. Yes; thank you, Mr. Chairman. Your budget on the Soil Conservation Service calls for a program decrease of $97 million for fiscal 1987. You say the completion of 590 projects in preconstruction or construction would be delayed indefinitely. Is this cost-effective? Here you've got a program that for years has been touted as one of the very best investments; in saving us from the ravaging of flooding, it's more cost-effective than building these big, monstrous dams. You not only cut it out but you cut out the ones that are in construction and preconstruction where there's been a great deal of investment.

Has the need or the possibility of floods suddenly disappeared?

Mr. MYERS. No, Senator; the flooding threat has not disappeared. But of course, we have already done extensive planning on these projects and there is hope that the sponsors could go ahead with the construction so that a lot of the engineering and project designs could continue to be used. We have a great interest in the Government to see this deficit reduced, and I think we can come back to these projects in future years when the Federal fiscal situation improves.

Senator ANDREWS. I'll grant you that, but there's a vast difference between spending programs and investment programs. You mentioned the fact that you have the hope that the original sponsors, the local sponsors, will go ahead. Now you started these projects that are underway with the idea that there was going to be Federal cost-sharing, and you're pulling that out. Does this changing of the rules in the middle of the game bother you at all?

Mr. MYERS. Well, it obviously is a difficult situation, but we have to look at the overall impact of the deficit on agriculture. I think that's our primary concern right now.

Senator ANDREWS. Well that's fine, but do you have any assurance that these programs are going to be able to be carried on by the local governments in their entirety, when they were started with the idea that there would be cost-sharing from the Federal level?

Mr. MYERS. In some cases I think they will, especially in our land treatment watersheds. I think there's great possibility that even the local farmers can go ahead with the land treatment part, because the farmers are required to do a lot of that work themselves. I would say, especially in Missouri, Nebraska, and some of the States that do have direct funds for cost-sharing, that there is some possibility that they can do some structural work, also.

Senator ANDREWS. Do you have available the number of these projects that will be able to go ahead with your removal of this funding?

Mr. MYERS. I do not.

Senator ANDREWS. Do you have any idea how many will be able to go ahead?

Mr. MYERS. We can get an estimate and submit it to you for the record.

Senator ANDREWS. If you could provide it for the record because, you know, when you make a statement that these projects can go ahead without Federal funding, the ones that are under construction, I just assume that you know which ones they are.

[The information follows:]

ESTIMATE OF WATERSHED PROJECTS THAT COULD BE COMPLETED BY LOCAL SPONSORS

There were 134 active watersheds in preconstruction and 405 in construction on April 1, 1986. We believe that local sponsors have the capability to complete all these projects without Federal funding. Although we have not made specific inquiries, we are not aware of any sponsors who would not continue their project. Small watershed projects tend to be local in nature and can be managed and financed at the State or local level without Federal support.

WATERSHED PROJECTS IN NORTH DAKOTA

Senator ANDREWS. In North Dakota we've got a number of small watershed projects under consideration. The English Coulee Program in Grand Forks is one of those. What's its status?

Mr. MYERS. I'll have to ask Mr. Bridge to answer that.

Mr. BRIDGE. That plan on the English Coulee has been completed and approved by the Senate Public Works Committee. It is now in the House Public Works Committee for their review and approval. It would then have to be approved by OMB for a new construction start before work could begin.

Senator ANDREWS. It will be one of those that if this cut is allowed will come in within the reduced funding, or will it—where will it stand; inside or outside of the new reduced funding, for example?

Mr. BRIDGE. That watershed would not be funded under the 1987 budget proposal.

Senator ANDREWS. No watersheds will be funded?

Mr. MYERS. That's right.

Senator ANDREWS. So OMB has approved this project, the Senate Public Works Committee has approved it, and it's before the House Public Works Committee now. Is that correct? If so, what happens once the House committee gives its approval?

Mr. MYERS. This particular plan itself has already been approved by OMB and sent to the Congress. We are, however, continuing to get these plans approved this year so that if there is some funding available from other sources they can continue with it.

Now, it would not come from Federal funding after this fiscal year, that's correct.

Senator ANDREWS. What you're saying is that once OMB makes its final review of the project, we'll look at the money available even though the administration wants to zero out projects such as the English Coulee.

OK. Now let's look at another thing. We have an authorization going through for a dam on the Maple River to take care of a flood problem that we have, a very serious flooding problem that we have, in the area of West Fargo. That authorization is for a large dam. Many farmers in the area claim that the small watershed projects concept under SCS would be more cost-effective, more satisfactory to the farmers involved and would do a better job.

Does this mean that if this budget request goes through, that comparison between the effectiveness of the Small Water Projects Act and this major dam that's being authorized will no longer be able to be made?

Mr. MYERS. That would not be addressed because the funds wouldn't be there to address it next year. That's correct.

Senator ANDREWS. So in essence what you're telling us is that if you're allowed to remove this ongoing project status, the concept of small watersheds, the Congress would not have the alternative of picking and choosing between which of these investments would be more cost-effective?

Mr. MYERS. That's right. If it was dependent on 1987 funding, that is correct.

CONSERVATION ASSISTANCE IN THE GREAT PLAINS

Senator ANDREWS. Now another thing in your conservation program, the conservation cost-share programs have been zeroed out. I'm hearing the argument that you claim that these budget resources should be put into the Conservation Reserve Program instead of the Great Plains Conservation Program or the ACP.

Now, Mr. Chairman, when you and I were working on this farm bill I thought that the concept we put together was that this Conservation Reserve Program would be in addition to the ACP Program and the Great Plains Programs and other conservation cost-share programs. Isn't this essentially the way you understood it as well?

Senator COCHRAN. It was a new program as I understood it, Senator, by which we would take out of agricultural cultivation a lot of highly erodible lands, as separate and apart from these other programs.

Senator ANDREWS. And at no point did we say it was supposed to be instead of these longstanding conservation cost-share programs.

Senator COCHRAN. No; I think you're absolutely correct, Senator.

Senator ANDREWS. Now I understand, Mr. Chairman, that as of September 1985, there were 14.7 million acres nationwide under contract in this Great Plains Program; that's out of an estimated 198 million eligible acres. So the challenge out there is considerable. We understand that contractual commitments will be met, but no new contracts will be entered into.

So what you're telling us is you're interpreting what we've done as saying that the remaining 93 percent of the acres that represent a challenge that should be taken care of under the Great Plains Program, you're just shunting them aside and saying, "we're not going to be doing it." Is that essentially true?

Mr. MYERS. I don't think we're shunting it aside. We're saying that the ranchers are going to have to do that themselves at their own expense, rather than relying on the Federal Government to do it.

COMPARATIVE COST-EFFECTIVENESS OF CONSERVATION PROGRAMS

Senator ANDREWS. Do you find that the Conservation Reserve Program is more cost-effective than the Great Plains Program?

Mr. MYERS. We haven't made that comparison.

Senator ANDREWS. But wouldn't you think that you ought to make that comparison before you unilaterally decide that you want to undo one program and say we're going to put all our eggs in this other program's basket? Isn't the normal thing that we would expect in a hearing like this for you to come up and say, "Mr. Chairman, we understand that the Great Plains Program, which has been around for a long time, is not near as cost-effective as is Conservation Reserve, so we're removing this," but you can't even tell us that.

Mr. MYERS. We're still going to have technical assistance in the Great Plains for the farmers and ranchers. Now we won't have the cost-sharing, but we'll still have technical assistance under the Conservation Technical Assistance Program so that we can still work with those farmers and ranchers.

Senator ANDREWS. I know, and that sounds wonderful, Mr. Myers, until you realize that—have you picked up your newspapers lately? Do you listen to television? Do you know there's a problem out in rural America?

Mr. MYERS. Yes, sir; I have a son-in-law who is farming in rural America, so I know the situation very well.

Senator ANDREWS. But then how can you testify today to say that the Great Plains Program can be carried on and fine, the farmers will just pay for the part that the Government used to be paying in this cost-sharing operation? You think we've got, somehow or other, more economic ability now than we used to have?

Mr. MYERS. No; I don't think we have more economic ability, and we recognize in the Department that we do have financial problems in the agriculture community. But we also recognize that given the farm program that we have, we have the means to work out of this problem.

Senator ANDREWS. But given the fact that you have just testified that you haven't made a cost comparison between the effectiveness of programs like ACP and the Great Plains Program and the Conservation Reserve, how can you justify zeroing out one program and chasing after another one?

Mr. MYERS. It is just a matter of priorities. We think this work that cannot be picked up by the Conservation Reserve can be picked up by the State and local governments.

Senator ANDREWS. But, Mr. Secretary, you say it's a matter of priorities, but you testified 2 minutes ago that you haven't established the priority. Now, you know, come before us with some facts. What we need is the information to try to justify what you're doing. Yet you come in here and you say, "No; we have not made a cost analysis between the relative effectiveness and efficiency of these two programs. Yet it's a matter of priorities that we zeroed the one out to go with the other."

Mr. MYERS. It's a matter of where the funding comes from, Senator, and we feel that the programs that we've zeroed out can be done with other funds.

Senator ANDREWS. But it comes from the same pocket in each case. They are both Federal programs; they are both dedicated to try to conserve our soil. Aren't you just blindly moving away from correcting excessive soil erosion and conserving water by zeroing out capriciously one of these programs that may be more cost effective than the one you're moving to?

Mr. MYERS. No, sir; I don't think we are, because we feel very strongly that the Conservation Reserve will zero in on that highly eroded land, and if we can get that permanently put in cover, it will be much more cost effective for the dollars spent. We feel that that is a Federal role in this particular case.

Senator ANDREWS. But a minute ago, you said you didn't know the relative cost effectiveness. Now you're saying——

Mr. MYERS. I know in my mind the relative effectiveness, because we know what targeting will do if we target at the most erodible acres. We will get you some figures to show you.

Senator ANDREWS. Can you provide at this point in the record, Mr. Secretary, then, the figures that you can put together that will show that this new Conservation Reserve Program is, indeed and in fact, more cost effective than the ACP Program and the Great Plains Program?

Mr. MYERS. We will provide our figures for the record.

Senator ANDREWS. Good. I'd appreciate that very much.

Thanks, Mr. Chairman.

[The information follows:]

COMPARATIVE COST-EFFECTIVENESS OF USDA CONSERVATION PROGRAMS

The Conservation Reserve Program [CRP], Agricultural Conservation Program [ACP], and Great Plains Conservation Program [GPCP] each serve certain aspects of USDA's conservation activities. These programs differ in geographic scope, land erodibility addressed, land uses, and practices applied. Thus, the cost-effectiveness cannot be compared directly. For example, the CRP is directed exclusively to highly eroding cropland and will remove the land from cultivation for a 10-year period by applying permanent cover, such as grasses or trees. ACP covers all land and is structured to share costs of a variety of practices to help solve a wide range of agricultural conservation and environmental problems that, if not addressed, would reduce the productive capacity of the Nation's land and water resources or cause degradation of environmental quality. GPCP is limited to 10 Great Plains States and provides technical and financial assistance for practices to protect the land and water resource base.

The Conservation Reserve Program is limited to cropland in classes II, III, IV, and V with an average annual erosion rate of two times the soil loss tolerance (T) or greater as announced by the Secretary and all land in capability classes VI, VII, and VIII. For the 1986 and 1987 program, an erosion rate must be three times the tolerance level to be eligible. The program does not cover range, pasture, forest land, or hayland, unless cultivated in 2 of the 5 crop years, 1981–85.

Costs include rental payments and cost sharing of approved practices, such as those needed to provide permanent cover. Since the program is new, we do not yet have actual data on establishment cost-share outlays. Rental costs are based on the first signup period, in February 1986.

Rental payments will amount to $34.7 million for the first year for the 828,383 acres accepted into CRP. Over the 10-year contract period, for these first-year signups, rental payments will amount to $232.7 million expressed in present value terms using an 8-percent interest rate. This present value outlay amounts to $1.05 per ton of soil saved over the 10-year period, excluding establishment cost-share outlays. The Department projects an average cost of $2.31 per ton of soil saved when fully implemented, including establishment and rental costs for a 40-million-acre program. Because the CRP provides annual rental payments to program participants, the cost per ton of soil saved is higher than the amortized ACP costs of $.60 per ton of soil saved in Federal costs and $1.29 per ton in total cost including the farmer's share. (Figures on these costs are not available for GPCP.) However, the CRP will be more cost-effective in the long run in terms of overall Federal outlays because:

1. The CRP will reduce Federal commodity program costs such as deficiency payments by taking highly erosive cropland out of production. This will result in enough savings in Federal outlays in these other program areas to offset the costs of the CRP. For example, for the 828,000 acres accepted into CRP during the first signup period in March, program participants have agreed to reduce their crop base by 474,000 acres. By comparison, much of the land treated under ACP and GPCP remains in production and remains eligible for Federal commodity program benefits.

2. In terms of the number of tons of soil saved per acre, the CRP represents a substantially greater cost-effective investment because it directs limited Federal resources to those areas where erosion problems are the most severe. The CRP is expected to result in an average soil savings of 19 tons per acre as compared to the average of 6 tons per acre under ACP. In fact, the soil saved based on the first signup for CRP amounts to more than 26 tons per acre.

Although our traditional conservation programs have provided important and lasting benefits in conserving and enhancing our soil and water resources, we believe that because of the constraints which must be placed on Federal expenditures at this time, we must seek more efficient and effective ways to address our conservation problems. This includes a greater reliance on State and local governments and the private sector to finance more of this work.

SCS STAFFING REDUCTIONS

Senator Cochran. Thank you very much, Senator.

Senator Burdick.

Senator Burdick. Thank you, Mr. Chairman.

I would like to address a question to Mr. Scaling. I've been receiving a lot of mail from constituents who are concerned about the cuts in the Soil Conservation Service. While you indicate that you still provide technical assistance, the people out there are saying that the assistance will be leaving. There seems to be a general complaint that the plan that was devised makes more cuts in the field office staffs when the emphasis should be on the State and national levels.

I've been advised by one person that the elimination of a technician would leave two counties in North Dakota without engineering service. Another person complained that the local people had nothing to say about how the cuts were allocated. I would like to know just what kind of guidelines are sent out to come up with these plans.

Is it true that we are really losing that engineering assistance, and can you give me an answer generally?

Mr. SCALING. I'm going to let Galen Bridge respond to that. He's in charge of programs, sir.

Mr. BRIDGE. We've been greatly concerned about the deployment of the staff within the Soil Conservation Service. One of the things that the Chief has insisted on is that we maintain staffing levels at the county level to the greatest extent possible. If you look at the percentage of our employees that are at the State office level, at national headquarters, and in field offices, you will find that we have actually increased the percentage in the field. That has moved from 71 percent up to 73 percent of our employees who are now at the county level.

Now we've come down in absolute numbers, so obviously there is some reduction in field staffing levels, but the mix is headed in the right direction.

Senator BURDICK. Well, then, the statement that you made, Mr. Scaling—"We are committed to keeping field offices open"—isn't exactly right, because I'm advised that in North Dakota they are closing eight field offices and two of the five area offices; is that correct?

Mr. SCALING. We are in the process of closing some area offices, yes, because, as I said, I personally am dedicated to keeping county-level field offices—our district conservationists and technicians—in place. Yes; we've got some places where we have two- and three-person field offices that are going to be cut back to one person. We also have some other field offices that we don't feel are maybe efficient enough, and yes, some of those will be cut. But that's at the discretion of the State conservationist in the particular State, such as in North Dakota.

Senator BURDICK. Well, in your prepared statement, you say you are committed to keeping field offices open.

Mr. SCALING. Yes, sir.

Senator BURDICK. There's a qualification to that, then, in North Dakota.

Mr. SCALING. I beg your pardon.

Senator BURDICK. I say you're qualifying that, because you're closing eight field offices in North Dakota.

Mr. SCALING. We're probably closing field offices all over the United States.

Senator BURDICK. But you said you're committed to keeping them open.

Mr. SCALING. I am committed, yes, sir.

Senator BURDICK. Which way is it? Are they open or are they closed?

Mr. SCALING. Because of the tight budget situation and changing workload requirements, some offices will naturally be closed, but I'm doing everything I can to keep as many open as possible.

Senator BURDICK. All I'm saying is, when you stated in your prepared statement that you're committed to keeping field offices open——

Mr. SCALING. I am committed to keeping field offices open to the extent possible.

Senator BURDICK. And yet not withstanding that, North Dakota will have eight closings of field offices, correct?

Mr. MYERS. We're not sure of the details of North Dakota, Senator, but we can find out. Now there may be more than one field office in the county, and this may be what's happening. Of course, here again, we delegate that authority to the State conservationist. He has the authority to open or close field offices as he sees fit, depending on how he thinks he can best serve the farmers and ranchers in your State.

Senator BURDICK. Well, I'm not going to belabor this situation.

That's all.

IMPLEMENTING THE FARM BILL CONSERVATION PROVISIONS

Senator COCHRAN. Senator Kasten.

Senator KASTEN. Mr. Chairman, thank you.

First of all, I would like to compliment Assistant Secretary Myers and Chief Scaling in particular for your dedication to the cause of conserving our precious soil resources.

Last year's farm bill contained the best and the strongest conservation title ever, and it was only possible through your cooperation and your work.

I think it's important now that we implement that conservation title properly, and I don't believe it's going to be an easy job. That's why, of all of the items in the USDA's budget proposal, perhaps I'm most concerned about the proposed reductions in Soil Conservation Service personnel.

I'm concerned, Mr. Chairman, that the administration's budget proposal underestimates the resources, human energy, and expertise that are going to be required to enforce the sodbuster, the swampbuster, and the cross-compliance provisions of the farm bill and establish the Conservation Reserve. All of these are new provisions, or significant changes in previous laws, and I just don't think that it's logical to think that we can implement them properly and do it well with the greatly reduced personnel levels being sought by the administration.

The budget proposal to slash SCS staffing levels by almost one-third would force farmers to comply with these new conservation requirements without giving them the technical assistance they need to do so.

I think we've all seen over the past 6 weeks or so—I know I've seen it in Wisconsin—how the county offices of SCS and also ASCS can get overwhelmed. In Wisconsin, we've had very serious problems. Staff has been stretched in some cases almost to the breaking point, and farmers have gone away confused, frustrated, and angry, in certain cases, about things they really wouldn't have had to be as confused and angry about, had county offices been able to spend enough time to explain the programs properly and work them through. We have caused some of that confusion, by not providing for adequate personnel levels, and also, frankly, by not passing a farm bill until the very end of last year.

I think that under the circumstances a rough freeze at last year's levels is about the most that I would be able to support where personnel levels are concerned. Ideally, we could use a modest increase in a couple of areas, particularly in the county offices, to cope with the very substantial changes that we've made in conservation and in other programs. But given the need for spending restraint, I think that a freeze maybe is about all that we would be able to work through here.

CONSERVATION RESERVE SIGNUP

I have a couple of questions, Mr. Myers. First, the signup for the Conservation Reserve last month was disappointing. In Wisconsin, only about 1,200 acres were bid into the reserve. That was less than one-tenth of what we thought we would get.

It's my understanding now that a second signup period is going to be held between May 5 and May 16 and that there will be a third signup period in the fall.

Could you please explain to us how this second signup is going to work, and are there going to be any differences between it and the first?

Mr. MYERS. That's an ASCS program, Senator, and if I might, I'd let Mr. Hertz respond to your question.

Senator KASTEN. Fine.

Mr. MYERS. He's the Acting Administrator. Because it is an ASCS program to administer, he can explain how the second signup is going to function.

Mr. HERTZ. Senator, right now we are proposing to have the signup on the dates that you have suggested. One of the reasons that we cut it from 3 weeks to 2 weeks in May is to notify farmers as early as possible whether their bids are accepted. There are still a lot of producers that would like to participate in the program for 1986, which would mean that they would not be planting any crops, and they would qualify under the same conditions as the early signup period.

We are also saying that in this period, if a producer proposes a bid and it is accepted, and if he already has planted his crops and intends to harvest them, we will contract with him this year, but he will not become a part of the Conservation Reserve until this coming October. He would earn his first payment in 1987.

Senator KASTEN. Do you have any comment on the fact that less than one-tenth of the acreage we had hoped to sign up for the reserve in Wisconsin, in fact, signed up? Is that a national trend? What went wrong? We were off by a lot, at least in my State.

Mr. HERTZ. Senator, I believe we did a good job in determining what bids we would accept, and I think the fact that the bids were unrealistically high is the main reason why there weren't as many accepted.

I think another consideration is that as we were going into the signup period, we were still working with yields, bases, and a lot of farm program provisions that the farmer did not have an understanding of, and I think that was in direct conflict with how he understood and valued, if you will, the Conservation Reserve.

Senator KASTEN. Well, Mr. Chairman, I don't want to take any more time. But Mr. Hertz' response to my question, in part, related to what I said earlier before I started asking questions.

There are all these different programs, many of them new programs, some of them good programs. None of them will work if we can't implement them properly, and there is no way we can implement them properly if we accept the administration's budget proposals to reduce ASCS and SCS personnel levels. We haven't done very well with the levels we have now, in terms of making it possible for farmers to work with our programs and understand them.

I think we've done, in last year's legislation, a number of important things. But it's one thing to pass the legislation; it's another thing to implement it, and that means we've got to go to work and make sure that people understand exactly what it all means, and I'm hopeful that we're going to be able to work together on this as the year goes on.

Mr. AMSTUTZ. That's right. And, Senator, may I just say, without getting into too much detail, that I think the light participation in Wisconsin in the bid process was echoed throughout the country. And we're quite hopeful that there will be far broader participation in this process in this current invitation for bids. Farmers have had an opportunity to learn more about the program and gain a better understanding of it; and so we have high hopes for broader participation throughout the country.

In general, the number of acres bid into the program nationwide was considerably smaller than I think most people estimated.

Senator KASTEN. Well, in the last couple of years in Wisconsin, we have had some fairly bad experiences with farmers saying about the explanations of the dairy diversion, whole-herd buyout, and other programs, "Well, it's too little, too late; we didn't know; we didn't know how it was going to work," et cetera. We're not doing well enough going out there and selling and explaining the programs.

Mr. Chairman, thank you. I have a couple of other questions I'd like to submit for the record.

Senator COCHRAN. I'm sure the witnesses will respond in a timely fashion. We would thank you for that.

Senator COCHRAN. Senator Bumpers.

Senator BUMPERS. Mr. Chairman, have you discussed the whole-herd buyout?

Senator COCHRAN. That has not been discussed.

Senator BUMPERS. Another thing that I'm looking at here is the Dairy Indemnity Program.

Senator COCHRAN. We were trying to target our questions to the conservation issues, particularly the Soil Conservation Service, with this panel, and we could then turn to ASCS and the international programs.

Senator BUMPERS. OK.

Senator COCHRAN. We have Assistant Secretary Myers and the Chief of the Soil Conservation Service, Wilson Scaling, and then we will turn to these other subjects after we have completed our questioning.

THE SCS WORK FORCE

Senator BUMPERS. One of the things I've been concerned about in the Soil Conservation Service is the work force—it's my understanding that if your budget recommendations are adopted by this committee, the work force will only be 70 percent of the current work force; is that correct?

Mr. MYERS. That's correct, Senator. We'll be down to about 10,000 people.

Senator BUMPERS. And how many people do you have now?

Mr. MYERS. 13,000.

Mr. SCALING. About 14,000.

Senator BUMPERS. So you propose to lay off 4,000 people under these cuts?

Mr. MYERS. That's approximate.

Mr. SCALING. About 3,700 employees would be cut.

Senator BUMPERS. Now where is the biggest cut going to come? Where are you going to lay off the most people? In what field?

Mr. MYERS. We're going to keep the people that work with the farmers and ranchers through the Technical Assistance Program where we work one-on-one with the farmers and ranchers in the field. This will be kept intact. In fact, there's a slight increase in that request.

Basically, the programs that will be eliminated or are proposed to be eliminated are RC&D, where we will have about 400 coordinators, the Great Plains Program, and the Watersheds Program. That's where the positions and the dollars will be eliminated.

Senator BUMPERS. In the Watersheds Program. That's a cooperative program, isn't it?

Mr. MYERS. Yes; that's a cooperative program with local sponsors, and in the case of land treatment watersheds, with farmers and ranchers also.

Senator BUMPERS. What is your rationale for eliminating the program?

Mr. MYERS. We feel that local sponsors can pick up the share that the Federal Government has previously been spending.

Senator BUMPERS. What has been the Federal share in the past? Was it 50 percent?

Mr. MYERS. No; if it was flood control, it was 100 percent of construction. It depends on the type of project as to the actual cost-share rate. We can provide that for the record as to the Federal share and the local share for the different types of watershed projects.

[The information follows:]

FEDERAL/NON-FEDERAL COST-SHARING RATES BY PURPOSE FOR SMALL WATERSHED PROJECTS

Federal technical assistance funds needed to plan watershed projects are not cost shared even though some State or local entities may provide some resources to support the development of a plan. Federal cost sharing is provided for technical assistance for the expertise required to install works of improvement and for financial assistance to cover actual construction costs. The breakdown of the cost-share rates by purpose are listed in the following table:

Public Law 83-566 Cost Share Rates

Purpose	PL-566 Technical Assistance	PL-566 Financial Assistance
1. Watershed Protection (accelerated land treatment)	100%	65% not to exceed the level of other ongoing national programs
2. Flood Prevention		
a. Structural	100%	100% of construction costs
b. Nonstructural	80% min.	80% min. of construction costs
3. Agricultural Water Management		
a. Irrigation	100%	Up to 50% of construction costs
b. Drainage	100%	Up to 50% of construction costs
c. Other Water Management	100%	Up to 50% of construction costs
4. Nonagricultural Water Management		
a. Public Recreation		
(1) Structure	100%	Up to 50% of construction costs
(2) Land Rights	1/	Up to 50% of cost
(3) Basic Facilities	50%	Up to 50% of construction costs
b. Fish and Wildlife		
(1) Structure	100%	Up to 50% of construction costs
(2) Land Rights	1/	Up to 50% of cost
(3) Basic Facilities	50%	Up to 50% of construction costs
c. Municipal and Industrial Water Supply 2/	0	Up to 50% of the cost of storage for present demands
d. Water Quality Management 2/	0 3/	0 3/
e. Energy	0	0
5. Groundwater Recharge 2/	0 4/	0 4/
6. Conservation and Proper Utilization of Land		
a. Control of Agriculture Related Pollution	100%	65% Not to exceed the level of other existing national programs
b. Disposal of Solid Wastes 2/	0 4/	0 4/

1/ Limited to providing information on requirements of SCS and data relating to plan elements.

2/ Although authorized by the act, authority to implement has not been granted by OMB.

3/ Cost sharing to be established by WRC.

4/ Rate is to be set at the discretion of the Secretary.

IMPORTANCE OF SOIL CONSERVATION

Senator BUMPERS. Well, Mr. Myers, I'm not going to belabor this, because I really have not had a chance to look at this budget as carefully as I will during the markup session.

I believe in the free enterprise system, and I think that it works better than any other system most of the time, but it isn't perfect, and at times there are national considerations which override some economic philosophy. And the reason we have the Soil Conservation Service is because we were losing our soil. I'm not suggesting that some of these cuts may not be in order, but the Soil Conservation Service in my State has been extremely important. I'm reluctant to see us turn away and say that the farmers ought to foot the full bill for something that goes to the heart of the agricultural viability of the Nation down the road somewhere.

So if these programs were good programs in the beginning and were necessary in the beginning, I don't understand why some of them still aren't. For example, we are still losing 5 tons of topsoil per acre a year in my State, and I think that is about the national average. Iowa still loses a lot, and they have made some valiant efforts at the State level, which you are familiar with. Tennessee and Missouri, our neighbors, lose a lot more than we do, and I consider it almost a calamitous situation that we continue to allow that to happen.

I can remember years ago being in Iowa with my father-in-law when after a heavy rain, nice, hard-surfaced highways were so slippery you could hardly get down them, because the topsoil had washed out onto the highways.

So I have been a strong proponent of the sodbuster and the swampbuster provisions of legislation to keep people from breaking up fragile lands. But still, in my opinion, as long as that situation exists, to say that the free enterprise system will work or the farmers will do what is right—most of them are pretty good stewards of their land; they own it and they don't want to see the value decrease because of poor farming practices—but I am just saying that if there isn't some incentive there, their commitment to it cannot possibly be as great as it has been in the past.

You may be right, and I am not being judgmental at this point, but I am just simply saying these are the facts. The erosion of topsoil in this country continues apace. I wouldn't want to preach to the choir, but as you know, for example, in my State on our arable land, which is roughly 8 million of 33 million acres, we are losing probably more than 5 tons.

IMPACT OF SOIL EROSION

I am told that 5 tons of topsoil is about the thickness of a dime. Is that a fair statement?

Mr. MYERS. That is an accurate statement, yes, sir.

Senator BUMPERS. I stacked 10 dimes up in my office one day when somebody from Soil Conservation was there and we were talking about it, just to see how much damage 10 years of erosion would do, but I am told that in Iowa, for example, at the rate of erosion they have been experiencing, 10 years from now Iowa will not be in the corn business.

So I am concerned about that, and I am concerned about what I think is a kind of cavalier attitude about the budget and the neglect of a very serious conservation problem that still exists in the country.

Mr. MYERS. We share your concern, Senator, and we are not addressing this with a cavalier attitude. This is one of the reasons we are supporting so strongly the request for technical assistance, where we can continue to work with the farmers. That is where the erosion is going to occur, on the farmland, and that is where we have to address the problem.

In your State in particular, we are working with the underground problem that you are familiar with in northeast Arkansas. That program will continue because that is a technical assistance program.

Senator BUMPERS. I am pleased to hear that. That is a good ongoing program.

Mr. MYERS. It is a technical assistance program, and that will be continued under this budget, as will all of the basic technical assistance services to the farmers and the ranchers.

UNRECOGNIZED IMPORTANCE OF EROSION'S IMPACT

Senator BUMPERS. How long does it take nature to restore 1 inch of topsoil if you just leave land unclaimed, unworked, and so on? Do you know?

Mr. MYERS. It depends if it is coming from rock or if it's coming from subsoil. It makes quite a difference. But it takes hundreds of years to do this.

Senator BUMPERS. Mr. Chairman, I don't want to belabor this either, but here is one of the most critical problems facing the Nation. It is like the theory of the glaciers melting and the oceans rising. Last week I guess it was the National Academy of Sciences that said in the last 15 years the oceans have risen 1 or 2 inches, and there have been studies done by some of our best scientists who say that coastal cities all over the world are going to be flooded 50 years from now.

You couldn't get a television network to spend 2 minutes reporting that. You couldn't get a television network—I don't know whose camera this is. It belongs to one of these guys running for reelection, I am sure. [Laughter.]

But you couldn't get the networks to cover a long-range problem like this to save your life, and if you want to be an ex-Senator, the best way in the world to be one is to concentrate on things that are not going to happen today or tomorrow. But soil conservation has always been one of my deep and abiding interests, because I know what we are going to do. I know what we are doing to ourselves.

You talk about a family issue? I love my children, and I don't have any grandchildren but I'm sure I will love them if I ever get any, and they will have rights, and this is their concern. I have already had more than my share of good fortune, but I am saying we neglect some of these long-range problems around here simply because it isn't politic to deal with them.

So much for my sermon for today, Mr. Chairman.

Senator COCHRAN. Thank you very much, Senator.

Senator Abdnor.

CONSERVATION RESERVE SIGNUP

Senator ABDNOR. Thank you, Mr. Chairman.

Gentlemen, two of the provisions in the farm bill that I supported more strongly than any other parts were the sodbuster provision and the conservation reserve. I too was disappointed by the lack of signup for this program, and hopefully in May it is going to be different.

Do you think they were expecting too much and thought this was a place to make some extra bucks at the time? maybe it was something like the soil bank days. I remember only too well how some people under the soil bank did extremely well and bought up whole farms and put it in. Did they think maybe that was it? Do you think also in the second round they will reconsider this and maybe show more interest?

Mr. HERTZ. Senator, I am sure that with bidding being an open-ended process in that we would have bids over a period of time, the first bidding process was one of "let's see what happens."

SODBUSTER REQUIREMENTS AND THE CRP

Senator ABDNOR. It is like with your dairy cows. That is a different subject, but you have gone from a tremendously low figure to a real high figure, I have noticed, in the bids that have come in, from $6 to $22, they tell me. That is quite a spread, and maybe that happened here. But let me ask you this.

As I understand the sodbuster provision in the farm bill and this program, if you are under a certain classification of land, I guess No. 3 grade or whatever level it goes to, they can't continue to farm that land for 3 more years or they have either got to comply with some kind of an acceptable conservation program or put their land in this. Isn't that the fact?

Mr. HERTZ. Yes; that is right.

Senator ABDNOR. They have 3 years. If they just ignore everything for the next two, they will still be eligible for those two, right?

Mr. HERTZ. Well, the cross-compliance, if that is what you are referring to, will be deferred until the end of this year.

Senator ABDNOR. The end of this year?

Mr. HERTZ. Yes.

Senator ABDNOR. Isn't that going to cause some of these people to come into this program?

Mr. HERTZ. You mean to plow fragile land?

Senator ABDNOR. No, not plow; put the fragile lands they have already——

Mr. HERTZ. Oh, I understand your question now.

Senator ABDNOR. Something has got to be done with that certain category of land. They can't continue farming it without coming up with an acceptable conservation program; isn't that right?

Mr. HERTZ. Yes; if you are referring to the conservation reserve, land that had been in production for 2 years prior to the enactment is eligible to go in.

Senator ABDNOR. Eligible, but what happens if they don't do anything with it?

Mr. HERTZ. The sodbuster provisions will apply to all highly erodible lands by 1990.

Senator ABDNOR. That is when it goes into effect, 1990?

Mr. HERTZ. Yes.

Senator ABDNOR. But they are going to be looking at that, surely, these people that have this plan. Isn't that an incentive to want to put some of that land into the conservation reserve?

Mr. HERTZ. I would certainly think so, Senator.

CRP LAND ELIGIBILITY

Senator ABDNOR. Maybe they haven't thought about that all the way through. We had a gentleman in from South Dakota yesterday, and my agricultural legislative assistant and he met with some people down at the Department hoping that maybe they could go up another notch in the classification. I don't know the classifications. What do you call the maximum? What category does that erodible land fall into, a 3?

Mr. HERTZ. I think you are referring to the erosion rate, the index of the 2T or the 3T.

Senator ABDNOR. If you went to a 2, it would probably be more. I suppose that would upset the whole Nation. But there is a lot of interest out our way by groups like the Pheasant Congress that could do wonderful things in a conservation reserve. Is there any chance of maybe raising the grade levels if you qualify for this?

Mr. HERTZ. Senator, when we initially looked at the overall objective of the 45 million acres, we estimated that we would use the 2T rate and classifications that would give us a base of about 110 million acres. Looking to the signup for 1986, we felt that if we raised the requirements, we would get at the more highly erodible land and have more of a conservation return.

As we go down the road, if we are going to achieve the acreage objective of the reserve, yes, we will have to look at that lower erosion rate and land classification to qualify.

CRP PAYMENT CEILING

Senator ABDNOR. I agree if we give any kind of acceptable payments at all, I would think you would have more land, people submitting more land to the program than you can take care of. I really thought that was what was going to happen, and I am disappointed that it hasn't.

Now, I have never had time to try to find out whether it is because they are asking an unreasonable figure or whether we are demanding an extremely low payment to them, but somewhere in the middle we ought to be able to hit an acceptable figure that some of these people would be willing to go into.

Mr. HERTZ. Senator, when we established the maximum payment levels, we felt that we were very close to land rental values in the various areas around the country. We did not want to get into competition with farmers out there who make a good part of their living leasing land.

USE OF HIGHLY ERODIBLE FARMLAND

Senator ABDNOR. That is right, but they have to do something with that land by the end of 1990?

Mr. HERTZ. Yes; the final requirements, if you will, of the sodbuster provisions are that farmers will have to have conservation plans in place by 1990.

Senator ABDNOR. If they don't take advantage of this and they haven't gone into a program, what options do they have in 1990?

Mr. HERTZ. Well, they can continue to farm their highly erodible land without a conservation plan, but they will lose their commodity program benefits.

Senator ABDNOR. On the eligible land as well, as I understand.

Mr. HERTZ. That is right.

Senator ABDNOR. I hope everyone understands that when they look this program over. I would think that would be quite a strong influencing factor in their decisionmaking.

Mr. MYERS. You make an excellent point, Senator, if I could comment. I think as the farmers become aware of the conservation compliance requirements, they are going to turn to the Conservation Reserve Program. As the agricultural community becomes aware of the conservation compliance required by 1990, I believe we will see more interest.

Now, I feel also that the conservation reserve bids, as Mr. Hertz mentioned, should not set a high-rent level. But we are bidding against our own farm programs, our own deficiency payments. The farmers that are struggling financially are going to have to look at what they can do this year, to get the maximum return. The deficiency payments probably would pay more in many cases, than the reserve will pay.

Senator ABDNOR. Believe me, I am sure that is right, and that is a very important factor.

Thank you.

Senator COCHRAN. Thank you, Senator.

Senator Sasser.

SECOND CRP SIGNUP

Senator SASSER. Thank you, Mr. Chairman.

Mr. Hertz, when we passed the farm bill last December, most of us had very high hopes for what the Conservation Reserve could accomplish. Now, I'm sure I don't need to tell you and other members of this distinguished panel how serious a problem soil erosion is in my native State of Tennessee.

Senator BUMPERS. I have already told them. I didn't know you were coming, so I told them.

Senator SASSER. I thought you told them about Arkansas. [Laughter.] But in any case——

Senator COCHRAN. If the Senator would yield, he was telling them about everything. [Laughter.]

Senator SASSER. Oh, he was.

Senator BUMPERS. But go ahead, it is all right. [Laughter.]

Senator SASSER. That is not out of character, I might say, for him to do that. [Laughter.]

In any case, we have, I think, one of the worst soil erosion problems in the country in the western part of Tennessee. We have had the dubious distinction there of having a number of counties that had the worst soil erosion problem in the whole country.

Can you tell us what the Department's plans are for a second signup period for the Conservation Reserve Program considering the fact that bids were accepted for a little over 800,000 acres on the Conservation Reserve when we were really shooting for 5 million acres to be reserved or removed in fiscal year 1986? What plans are there for a second signup period, and how are we going to make up for this loss of the acres that we didn't sign up in the first period?

Mr. HERTZ. Senator, the second signup period will be starting May 5 and continuing for 2 weeks, and we will have to appraise those bids as they come in and see where it leads us. As I think has been mentioned earlier, the early signup was held before the farmers had a lot of information that they needed to compare the Conservation Reserve to their farm programs.

We were still working with provisions of the farm bill, with bases and yields. We rushed to get the regulations out, and I think we can do a much better job of it this time. We have got a lot more information out there. As I mentioned earlier, I think that knowing that there will be several bids in the ensuing years, quite frankly, farmers bid unrealistically high hoping that their bid would be accepted.

CRP ENROLLMENT

Senator SASSER. What amount of acreage do you think we can realistically expect to enroll in the Conservation Reserve in 1986? Do you have any projections on that?

Mr. HERTZ. At this point in time we have no projections.

Mr. AMSTUTZ. But Senator, we are sure shooting for the 5 million acres, as has always been a matter of record. And as was said before you came in, Senator, I think most parties involved in this process, either in the administration or out of the administration, including all of the interested private sector groups, are quite hopeful that we will have far broader participation in this bid period coming up.

More is known about the program. There has been better dissemination of information. Even the farmers learned from that first bidding process. So we are hopeful, but Mr. Hertz is absolutely correct when he says we just can't be sure until we see what comes in.

INFORMATION ON CONSERVATION RESERVE

Senator SASSER. Have you detailed for the Committee already the steps that are being taken to encourage farmers to sign up for the Conservation Reserve? If not, I wish you would do that.

Mr. MYERS. The Extension Service is dramatically involved in this in all States, Senator. They have done an excellent job of providing information to the farmers.

Senator BUMPERS. You are cutting them to the point where they are not going to have anybody left either.

Mr. MYERS. Well, they are doing a good job in the States, whether they are doing it from State or Federal funds, Senator. The news media and the farm magazines have done a good job of picking up information, which we have supplied to them. We have worked with the conservation groups in Washington and they have also transmitted it through their various newspapers and magazines.

Senator SASSER. I will yield to the Senator from North Dakota.

BID CEILINGS FOR CONSERVATION RESERVE

Senator ANDREWS. You raised a point that I think is extremely important. You said the Extension Service has this information out there on this Conservation Reserve. Senator Sasser was asking about signup and knowing what the details were. Do you have anybody down in that shop that understands anything about farmers, who has ever been close to a farm?

Mr. MYERS. The Soil Conservation Service and the ASCS——

Senator ANDREWS. No; you answered Senator Sasser, in saying that you had some information, you said you were putting information out, yet you didn't. You got a miserable signup because you didn't play it straight with the farmers, and all I want to know is, does anybody down in that shop of yours understand agriculture?

Mr. MYERS. Yes, sir.

Senator ANDREWS. Does anybody down there who was putting up the regulations for the ASCS, Conservation Reserve, know anything about rural America?

Mr. MYERS. Yes, sir.

Senator ANDREWS. Then why, when you put out these rules—you told, I am told, you pointed out to the county committees what the maximum price was going to be that you would accept, but you didn't tell the farmers. Now, anybody in rural America, anybody who has ever been on a farm knows that when you come to a country auction you oftentimes set a minimum price that you are going to accept. Now, what you are doing with this Conservation Reserve is trying to get auction prices, bids to get the land in the program.

If you had played straight with the farmers, if you had understood how it is in rural America, you would have had a decent number of bids for this conservation reserve since you would have told them the maximum bid. My question is: Why didn't you? If you have got this information, you put it out to the county ASCS committees on the ceiling amounts, why didn't you share it with the farmers?

Mr. MYERS. We did not put it out to the county ASCS committees ahead of time, Senator. Mr. Hertz may want to elaborate on that.

Senator ANDREWS. Well, you had that information in your own mind.

Mr. MYERS. No, sir; I don't think we did.

Senator ANDREWS. You made no information available to the county committees about ceiling amounts for acceptable bids?

Mr. HERTZ. Senator, I'd like to respond to that. We wanted the bid process to be a true bid process. After the bidding was closed, we contacted our State offices and they in turn contacted the county ASCS offices and advised us as to what levels would be a fair maximum bid.

Senator ANDREWS. I know. You said true bid process. One bid process that has been working in rural America for years is established minimum bidding. You go out and have an auction and establish a minimum price on a combine or a tractor or even a set of garden tools, and it works. Why couldn't you use the same system here as it pertains to maximum bids?

Mr. HERTZ. In this case the concern is the maximum price, and I think we did establish a maximum price that we would accept.

Senator ANDREWS. You established a maximum price after the fact. The point is you have to tell the bidders. You have to let the farmers know what that maximum price is or they have no guidelines. Do you think there is something wrong with sharing this information with the farmers who are doing the bidding?

Mr. HERTZ. No, sir; I think based on the first bid, they know about where the acceptable bids are.

Senator ANDREWS. You are going to go out now and do it like a regular country auction would be done, where you put in your maximum price and the farmers know essentially what it is before they do the bidding in the second time around? Is that true?

Mr. HERTZ. We are going to look at the overall bids independently by region again.

Senator ANDREWS. The point is this time around, since you had a disastrously low bid acceptance rate the first time, are you going to run it as farmers are accustomed to having an auction sale run, where you let them know what the maximum price in this case is to put their land in?

Mr. HERTZ. I think the maximum prices that we had this last time will generally apply to the next one.

Senator ANDREWS. You are going to let the farmers know that?

Mr. HERTZ. I'm sure they know it now.

Senator ANDREWS. You think you will have greater success now because you are running it as farmers are accustomed to having auction sales run. You are making progress. It just takes a while.

Thank you, Mr. Chairman. Thank you, Senator Sasser.

Senator SASSER. You are quite welcome, Senator Andrews. I kind of lost my train of thought.

Senator ANDREWS. You had a good one started.

OMB REVIEW OF CRP BID CEILINGS

Senator SASSER. You picked up on it very well. I might say this, I understand that OMB has sent out guidelines outlining acceptable dollar limits on these bids. Is that true, gentlemen? Does OMB have the authority to issue guidelines such as these?

Mr. HERTZ. No, sir.

Senator SASSER. Did OMB send you acceptable dollar guidelines for the bids?

Mr. HERTZ. After we received the bids, we evaluated them and we made our recommendations through Mr. Amstutz and the Secretary. Those bids did in fact go to OMB, and they concurred with our recommendations.

Senator SASSER. The question is, Did OMB send you originally acceptable dollar guidelines?

Mr. HERTZ. No, sir.

Senator SASSER. After you got the bids, they did go to OMB and OMB made the final determination on what would be acceptable?

Mr. HERTZ. No; we made the determination and they concurred with it.

Senator SASSER. Did OMB have a veto power over what was accepted?

Mr. AMSTUTZ. Senator, I wouldn't put it that way. OMB surely is involved whenever there are outlays to be made.

Senator SASSER. What dollar value per acre is acceptable to OMB?

Mr. AMSTUTZ. I'm not aware of any guidelines that you referred to as coming from OMB. OMB's interest is far more in the macro sense, how many total dollars are in the outlay process at any given time.

Senator SASSER. Did OMB indicate what value per acre might be acceptable?

Mr. AMSTUTZ. If someone from OMB did, I was unaware of it, Senator. I can check into that. It's highly possible.

Senator SASSER. I would like to know. Perhaps this might explain why the Department's acceptance rates for bids were so low.

Mr. AMSTUTZ. Senator, I have to say that we told OMB what we thought we should do and they accepted.

CONSERVATION RESERVE ENROLLMENT

Senator SASSER. Gentlemen, I will just say, and I might point out that you are required, as I understand it, by the farm bill, required by law, to sign up 3.7 million acres as a minimum for 1986. What are the prospects for getting that done now?

Mr. AMSTUTZ. As I said to you before, and I will stand by that answer, our target is the 5 million acres that we have talked about since the inception of the program. Obviously, our success in reaching that number is predicated on broad participation in this current round of bids that will commence May 5. We are very confident that we will have far broader participation this time.

I'm aware of the keen interest in this subcommittee on this subject. We will be happy to share with the committee a full report of this process as it ensues. I would be happy to have that sent up here so that all the members of the subcommittee are kept posted.

Senator SASSER. Mr. Chairman, I would just observe that if USDA is not successful in meeting the legislative requirements in signing up acreage for this Conservation Reserve Program, that I think clearly we should consider substantially more funding for the traditional soil conservation programs that this committee has supported and has funded.

From my point of view, if there are to be cost savings achieved somewhere else in the USDA budget, perhaps the below-cost timber sales would be a logical place to start.

EXCLUSION OF GRAZING LANDS FROM CRP

Senator BUMPERS. Mr. Chairman, may I ask one question?

Senator COCHRAN. Senator Bumpers.

Senator BUMPERS. Grazing lands are not included in the Conservation Reserve, are they?

Mr. MYERS. That's correct. There is no grazing allowed, and it has to be row cropland in order to come into the conservation reserve.

Senator BUMPERS. Is there something similar for cattlemen? Is there any kind of payment at all for cattlemen other than this program? Grazing lands are just excluded, and that is it?

Mr. AMSTUTZ. By definition, grassland is protected from the erosion process.

Senator BUMPERS. I wanted to be sure that the definition was agreed upon among you, that grazing lands were not included or there was a question about it. There is no question in your mind that grazing lands are excluded?

Mr. HERTZ. Senator, the provision that we determined to be used for eligibility was that the land had to have been in row crops 2 out of the past 5 years.

Senator BUMPERS. Thank you. Thank you, Mr. Chairman.

COST SHARING FOR TERRACING

Senator COCHRAN. Senator Mattingly and Senator Specter both have questions for Mr. Scaling and the Soil Conservation Service which they will submit for the record. Also, in order to conserve time, I am going to submit questions of my own to the Soil Conservation Service on the subject of watershed and flood prevention operations, and also questions to both agencies on the Conservation Reserve Program and the Sodbuster Program, so that we can have a full record of a discussion of those important programs.

Let me ask you this; I know there are some cost-sharing programs that are scheduled for elimination. Would the program that provides funding to landowners to pay for the cost of terracing be one of those programs that would be eliminated under the President's budget?

Mr. MYERS. Yes, sir; under the ACP, which would be eliminated, we do fund terraces.

Senator COCHRAN. Some have suggested to me that this is an interesting time we are in, when we are trying to put incentives in Federal programs to discourage cultivation of marginal lands. Would this not be a program in contrast to that effort, where you are actually paying a farmer, or helping to pay, for an escalated cost of cultivating marginal lands, if you continue that kind of program?

I wasn't sure I had a very good answer to that. What is your response to that?

Mr. MYERS. I feel that the Conservation Reserve will attempt to get that land out of production that is now being cultivated and that is highly erodible. This will be more cost effective than what we can spend on the terraces. We would hope that while the farmer has the land in reserve, he will take some of his own resources and put in some permanent practices if he is going to attempt to bring it back into row crop production 10 years from now. He would have to do it at his own expense or from the money that he gets, that the Government pays him for keeping it out of production.

OTHER FARM BILL CONSERVATION PROVISIONS

Senator COCHRAN. I am convinced that the farm bill we passed just this last year has one of the most aggressive conservation programs that we have ever seen come out of the Congress or our Federal Government. There are incentives in there to conserve land and water resources. The Government participates in an active way with landowners.

I am glad to see the Technical Assistance Program given such a high priority in this budget. I know there are going to be those who worry about the cost-sharing programs. I have concerns about that, too. A lot of landowners in my State directly benefit from those programs and they have proven to be effective. That is another key factor.

In States like Tennessee and Arkansas and Mississippi where we have some very serious erosion problems, these are important.

CONSERVATION EASEMENT PROGRAM

We also put in the farm bill some incentives for those who borrow from the Farmers Home Administration who are in financial trouble, to provide a way to avoid foreclosure, to keep land in a family farm setting that would otherwise be destined for the auction block, by permitting delinquent borrowers to dedicate a portion of their lands to wildlife habitat or other conservation use, such as for planting of pine trees. This would be available where it has been shown over the past several years that a farmer just cannot, from an economic standpoint, make any money with row crops on that kind of land. Some of it is boggy land. It should not have been put in cultivation in the first place, but they have been trying to farm it. Maybe they made a couple of good crops once upon a time, but it never has really paid off since then. They are stuck in having to keep farming that to try to get every dollar out of the land they can so they can try to work their way out of indebtedness, but they are just getting deeper in debt.

It is the same thing for people who were planting soybeans and some other crops on lands that just don't have the yields to justify continued planting of that land for row crops. It ought to be in trees or some other use.

In the farm bill, there are programs that will help those persons. I wonder if you could tell us whether or not progress is being made in developing regulations to implement those two programs.

Mr. MYERS. The FmHA is working on the rules and regulations, Senator. I don't know the exact progress on this. We can furnish that for the record. I do know that the Department is actively discussing the conservation easements with several interested groups in town, including the National Association of Conservation Districts and the American Farmland Trust.

We do intend to try to implement this portion of the farm bill, given the time and the people that we have. As you well know, FmHA has a heavy workload right now with the credit situation. It is a credit program. It is being addressed by Mr. Vance Clark.

[The information follows:]

STATUS OF RULES AND REGULATIONS ON CONSERVATION EASEMENTS

The rules and regulations to implement the conservation easement provisions of the Food Security Act of 1985 (Public Law 99-198, Sec. 1318) are currently being developed by the Farmers Home Administration. The Department plans to publish these rules in the Federal Register by August 1, 1986.

Senator COCHRAN. I hope you all will help give a little impetus to completion of those regulations. These are conservation programs, too. They do affect directly Farmers Home borrowers, and as such, they of course come under the jurisdiction of the Farmers Home Administration.

We are trying to do something about marginal land and the appropriate use of lands without really telling a person what he has to do with his land. We are trying to put the proper incentives in the law and encourage the appropriate use of these lands. I hope we can have the benefit of your assistance as we develop those regulations.

I would like to see those lands kept under the control of the landowners to the greatest extent possible, as long as they abide by the guidelines and regulations that were contemplated by Congress when it put these provisions in the farm bill.

SUBMITTED QUESTIONS

I have questions that will be submitted. I think that takes care of all the questions we have on the conservation side.

Mr. Myers, Mr. Scaling, we thank you for being here today.

Senator SASSER. Mr. Chairman, I have additional questions that I would like to submit for the record dealing with the conservation program.

Senator COCHRAN. They will certainly be submitted. We hope you will be able to provide timely responses for the record to Senator Sasser's questions, too.

Thank you very much for being with us.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

WATERSHED AND FLOOD PREVENTION OPERATIONS

The budget request you have presented calls for termination of the watershed planning and construction activities. This program is an effective means of dealing with conservation problems, particularly in the lower Mississippi Valley. While your budget request proposes to shift these activities to units of state government, I believe it is unrealistic for states at the lower end of the Mississippi River Watershed to be solely responsible for dealing with problems caused by water coming from states in the upper reaches of this drainage area.

I understand the work to be completed under this program is agreed to in a document referred to as a Watershed Work Plan which is signed by the concerned local units of government and the USDA.

Question: What is the value of work remaining to be completed in existing watershed work plans?

Answer: The remaining Federal cost in all currently approved plans is estimated to be $1,284,682,000.

Question: What is the impact, environmentally, economically and legally, of starting and not completing installation of a comprehensive conservation system as outlined in the watershed work plan?

Answer: Each structure within watershed projects is constructed as an independent unit. These decision units are economically and environmentally sound and may be installed in increments without affecting the soundness of any individual unit. We do realize, however, that the overall performance of the system may be reduced by such decisions. The environmental and economic impact that results from starting and not completing project measures outlined in watershed plans is the foregone opportunity to either enhance natural resource systems or reap the full flow of potential net benefits which the projects are designed to provide. In order to complete the planned work, local project sponsors would have to finance remaining work with resources generated at the local level.

It is our understanding that the government has no legal obligation or responsibility for the work which has not been started in these projects when the program is terminated. The agreement between the sponsors and the Federal Government is contingent on appropriations being available. When the sponsors agree to carry out a plan, they agree that the Federal government responsibility is limited by fund availability. We anticipate some law suits from sponsors who may have made significant investments in land rights and from property owners who feel that the completed measures caused them harm after the program is terminated.

Question: What plans do you have regarding completing work called for in existing watershed work plans which have been approved by Congress?

Answer: Any contract which is ongoing would be completed, so no structure or segment of channel would be left partially completed. It is SCS policy to build all upstream detention structures before a lower structure is started. We also build channel work beginning at the outlet and work upstream. Any work which is not under contract will be turned over to the sponsors for completion.

LONG-TERM COSTS

The Administration has proposed to eliminate the Federal contribution to watershed construction, saying that local funding should be sufficient. If farmers don't install conservation measures, and if state and local governments don't install watersheds, the down-stream effects would be--and are in many cases--expensive to correct in the long run.

Question: It has been shown that down-stream effects of erosion are more damaging in the long-term than on-farm effects. Does that not serve as justification for a national program?

Answer: The President's 1987 budget would continue to provide a national conservation program although it does represent a somewhat different approach from that of past years. The reduction of excessive soil erosion continues to be our highest priority conservation objective even within the constrained funding levels reflected in the 1987 budget request for USDA soil and water conservation programs. Through our continuing technical assistance program and implementation of the new Conservation Reserve Program, we believe that we will be able to address our nation's most serious erosion and other resource problems. By putting those lands that are eroding at greater than 3 times the soil loss tolerance rate into permanent cover or trees through the Conservation Reserve Program, we will be able to have the greatest impact in terms of reducing off-site damages. We believe that this is the most appropriate and effective use of limited Federal resources.

SODBUSTER PROVISIONS

The Farm Bill outlines provisions for what is commonly referred to as the "Sodbuster." Throughout this section there is a great deal of emphasis placed on the preparation of an approved Conservation Plan and also the completion of Soil Surveys, particularly on land which is highly erodible and being converted to production of agricultural commodities.

Question: Please discuss the impact you anticipate this new program having on your agency's workload and how this budget request will assure your ability to meet these objectives.

Answer: We are in the process of developing rules to implement these provisions of the law. Part of the rule making includes establishing criteria to identify highly erodible lands and wetlands. For instance, options being considered for highly erodible land range from 111 to 326 million acres. Thus, SCS workload would vary considerably depending upon which option is selected. We plan to issue rules by June 23, 1986. After the rules are available, we can begin to develop realistic workload estimates.

Question: Please outline what changes this new program will have in the staffing patterns and requirements of the Soil Conservation Service nationwide and particularly in Mississippi. Will this require present staff to be moved between states? Will this program require additional staff?

Answer: As indicated in the previous answer, we are still in the process of analyzing the impacts of this new program on our existing staffing patterns. Some adjustments in staffing patterns may be required, but specific adjustments required on a state by state basis will not be available until rules are issued.

Questions. Please discuss the coordination between SCS and ASCS to issue regulations to implement this provision of the Farm Bill and the forecasted date for these regulations to be released.

Answer: There has been good coordination between ASCS, SCS, FmHA and FCIC on the development of regulations to implement these provisions of the law. In fact, the regulations will likely be issued on or about June 23, 1986 as Departmental regulations.

OFFSITE BENEFITS FROM CROPLAND EROSION CONTROL

Question. According to the Economic Research Service, "offsite benefits account for about two-thirds of the total benefit from cropland erosion control, indicating significant public benefits from soil conservation programs."

Does that not indicate another reason for the Government to be involved in funding soil conservation measures on private land?

Answer. Although the estimates of offsite benefits from cropland erosion control cited in the ERS draft study have not been fully verified, they are generally indicative that substantial offsite benefits accrue from USDA conservation activities. For this reason, we believe that there continues to be an important and appropriate Federal role in soil and water conservation. This role, we believe, is best served by continuing to fund Federal technical assistance to address erosion control and other soil, water and related resource problems; and by directing limited Federal financial assistance resources to those lands with the most severe erosion problems through the Conservation Reserve Program authorized in the Food Security Act of 1985. The Department estimates that annual soil savings of 764 million tons would be achieved with a 40 million acre conservation reserve following the 5-year signup period. These are the acres with erosion rates that contribute to the greatest extent to offsite damages.

Question. For the past few years, the SCS budget reductions have been justified by suggesting that the farmers are now seeing that soil conservation is cost-effective. However, an ERS study has shown that benefits are less than the cost for erosion control, except on land eroding at over 15 tons per acre per year.

What is your reaction to this finding?

Answer. The area of quantifying the benefits of erosion control work is a very complex and important issue that merits considerable further analysis before final conclusions can be made. The ERS draft study is an early attempt to address this issue and, while it has certain technical problems, it is fair to say that a greater degree of cost-effectiveness is achieved where current erosion rates are significantly higher than the National average. SCS and ASCS have been emphasizing cost-effective solutions to erosion reduction efforts now for several years. The emphasis on conservation tillage systems is a primary example of a cost-effective approach to erosion control on cropland and one which has received wide acceptance on the part of farmers and landowners. We also believe that through the Conservation Reserve Program, we will be able to address these highly erodible croplands in the most cost-effective manner for the farmer and for the Federal government.

QUESTIONS SUBMITTED BY SENATOR SPECTER

SOIL CONSERVATION SERVICE BUDGET REQUEST

Question: Your budget proposal will discontinue much of your program in River Basin Surveys and Investigations, Watershed Planning, and Watershed and Flood Prevention Operations. Please provide for the record details on your budget as submitted to the Secretary, the budget as submitted to OMB, and the budget as approved by OMB.

Answer: The following table provides the information requested.

SOIL CONSERVATION SERVICE
FY 1987 APPROPRIATION HISTORY
(Dollars in Thousands)

Item	FY 1986 CURRENT ESTIMATE 1/	FY 1987 2/		
		AGENCY REQUEST	DEPARTMENT ALLOWANCE	OMB ALLOWANCE
CONSERVATION OPERATIONS:				
Technical Assistance..................	$270,859	$286,036	$286,036	$286,036
Inventory and Monitoring..............	11,696	(0)	(0)	9,689
Soil Surveys..........................	54,338	55,360	55,360	55,360
Snow Surveys and Water Forecasting....	3,780	5,039	5,039	5,039
Operation of Plant Materials Centers..	3,890	4,147	4,147	4,147
Resource Appraisal & Prog. Development	4,106	(0)	(0)	1,725
Resources Inventory and Analysis......	0	10,000	10,000	(0)
Non-Recurring Management Investments..	0	18,500	18,500	(0)
Total, Conservation Operations.......	348,669	379,082	379,082	361,996
RIVER BASIN SURVEYS & INVESTIGATIONS...	14,180	14,906	9,472	9,472
WATERSHED PLANNING	8,487	8,922	(0)	6,480
WATERSHED & FLOOD PREVENTION OPERATIONS:				
Flood Prevention Operations - PL-534..	33,881	22,110	(0)	12,400
Emergency Watershed Protection	36,049	5,000	(0)	1,106
Small Watersheds Operations - PL-566..	143,859	143,233	(0)	54,272
Total, Watershed & Flood Prev. Opers.	220,772	170,343	(0)	67,778
WATERSHED PLANNING AND CONSTRUCTION:				
(Consolidated Account)..............	(0)	(0)	150,000	(0)
GREAT PLAINS CONSERVATION PROGRAM......	20,482	21,531	10,568	(0)
RESOURCE CONSERVATION AND DEVELOPMENT..	25,037	26,320	11,400	11,400
SUBTOTAL, SOIL CONSERVATION SERVICE..	637,627	621,104	560,522	457,126
RURAL ABANDONED MINE PROGRAM...........	(9,019)	(4,900)	(4,900)	(800)
TRUST FUNDS............................	560	700	560	560
TOTAL, SOIL CONSERVATION SERVICE.......	$638,187	$621,804	$561,082	$457,686

1/ Net of 4.3% Gramm-Rudman-Hollings reduction.
2/ Adjusted to reflect transfer of GSA-SLUC contracts to SCS.

PENNSYLVANIA WATERSHED PROJECTS

Question: If approved, this budget will reduce watershed and flood prevention operations in Pennsylvania from $5.6 million to $1.4. Which projects in Pennsylvania will not be done if this budget is approved?

Answer: There are 13 operational projects in Pennsylvania that would not be completed if the program is terminated as proposed. All ongoing contracts will be finished, but no new contracts will be awarded. The projects in Pennsylvania which are affected by this proposal are listed below:

PROJECT NAME	COUNTIES
BRANDYWINE CREEK	CHESTER, DELAWARE, LANCASTER, NEW CASTLE(DE)
BRIAR CREEK	COLUMBIA, LUZERNE
CLOVER CREEK	BLAIR
CROSS CREEK	WASHINGTON
DUNLAP CREEK	FAYETTE
JACOBS CREEK	FAYETTE, WESTMORELAND
LITTLE SCHUYLKILL RIVER	CARBON, BERKS, SCHUYLKILL
LITTLE SHENANGO RIVER	CRAWFORD, MERCER
MIDDLE CREEK	MIFFLIN, SNYDER, UNION
NESCOPECK CREEK	LUZERNE
NESHAMINY CREEK	BUCKS, MONTGOMERY
OIL CREEK	CRAWFORD, ERIE, VENANGO, WARREN
ROCK CREEK	ADAMS

RESOURCE CONSERVATION AND DEVELOPMENT PROGRAM FUNDING

Question: Pennsylvania Resource Conservation and Development efforts have been seriously underfunded in the past. In 1986, only $127,000 was available to non-Federal sponsors for such efforts. With such serious underfunding, why are you proposing reductions in this program?

Answer: The Gramm-Rudman-Hollings balanced budget act limits the 1987 Federal deficit to $144 billion. This has meant that only entitlement and essential Federal domestic and defense programs continue beyond 1987. Consequently, the Fiscal Year 1987 Budget for the United States Government has been structured to sustain the Nation's economic growth, to provide a strong national defense system and to continue funding programs that clearly serve national objectives. Funding for several nondefense discretionary programs has been reduced and more than forty program terminations have been proposed. The Resource Conservation and Development program and many other conservation programs are proposed for termination. They are locally oriented programs that should be the responsibility of State and local governments rather than the Federal Government. Further, the local support of the Resource Conservation and Development program indicates that the higher priority projects would continue to be installed with non-Federal funds if other Federal assistance could not be secured.

CONSOLIDATION OF NATIONAL TECHNICAL CENTERS

Question: Your office is planning to relocate the Chester, Pennsylvania, National Technical Center to Fort Worth, Texas, effective January 3, 1987. This proposed transfer will severely impact a city that is already one of the most distressed cities in the nation. What studies have been conducted to show that this movement is economically justified?

Answer: The study which started the process to consolidate our support activities and established Fort Worth as the appropriate location for a single center was made in 1980 and 1981. At that time, the decision was made to consolidate three major functions--cartographic services, employee development, and information services. Our current decision to consolidate the remaining functions is based on that initiative. Our first priority is to maintain a solid base of well-trained field personnel to assist landusers with conservation problems. We believe our technical support to that base can be accomplished the most efficiently and at the least cost from a central center.

Question: Please provide for the record the current costs and staffing at all SCS technical centers, the proposed costs and staffing level if all centers are consolidated in Fort Worth, and detailed cost analyses by center of the one-time costs such as unemployment compensation, severence pay, relocation benefits, lump sum leave payments, and any contractual buyouts required as a result of this proposed consolidation.

Answer: The following table provides the cost analysis you requested.

National Technical Center Consolidation
($1,000)

	Current Budgets					Future Budgets			
	Chester	Fort Worth	Lincoln	Portland	Total	Consolidated Center	Staffs Remaining		Annual Savings
							NE	OR	
Recurring Budgets:									
Personnel	2,484	8,745	4,959	4,308	20,496	15,552	1,281	1,117	-2,546
Relocations	30	170	30	9	239	276	28	28	+93
Travel	258	527	289	373	1,447	1,690	42	81	+366
Communications/Rental	136	401	124	214	875	587	38	102	-148
Space (SLUC)	164	677	417	209	1,467	808	100	25	-534
All Other	240	3,126	297	907	4,570	3,996	122	322	-130
Gross Budget	3,312	13,646	6,116	6,020	29,094	22,909	1,611	1,675	-2,899
Staff Years	68	283	137	116	604	455	40	29	-80
					Total				
One Time Costs:									
Lump Sum Leave	54		67	59	180				
Severance Pay	169		212	183	564				
Relocation of Employees	1,316		1,708	1,400	4,424				
Equipment & Facilities	57	63	60	58	238				
Total	1,596	63	2,047	1,700	5,406				

QUESTIONS SUBMITTED BY SENATOR HATFIELD

SCS TECHNICAL CENTERS CONSOLIDATION

Question: In September 1981, your Office of Assistant Chiefs in their "Final Report - Management Study of Technical Service Centers" recommended, "After studying a number of organizational alternatives, the Assistant Chiefs recommended to Chief Norm Berg that the number and location of current TSC's remain the same, but that the functions of cartography, employee development, and information be consolidated into one unit. This recommendation was affirmed by the Chief on June 19, 1981." What more recent studies have you completed that provide evidence that consolidation is now in the public interest?

Answer: In the interest of fiscal economy alone, we believe this action is justified. In addition, this consolidation is fully consistent with our first priority which is to maintain our field strength--that is, technicians who provide services to farmers and ranchers. They, of course, require technical support in the fields of technology development and the translation of that technology and research into field procedures. We believe this can be accomplished from a single technical center more efficiently and with less duplication of effort.

We have now developed the staffing plan that we believe appropriate to provide technical support services to our state and field offices. At present, the four centers contain slightly over 600 personnel. Three units, however, will not be moved from their present locations, (1) the National Soil Survey Laboratory at Lincoln, Nebraska, (2) the Snow Survey and Water Supply Forecasting Activities at Portland, Oregon, and (3) the Multi-state Water Resource Planning Staff, also at Portland. The total staffs being considered for consolidation include 535 personnel. The staffs we will propose include 455, a reduction of 15 percent. By centralizing, we will have estimated one-time costs of $5.4 million. Annual savings in salaries, rent, equipment, and the like, will total an estimated $2.9 million. Thus, we will begin to accrue a net saving in less than 2 years.

BASIS FOR CONSOLIDATION OF TECHNICAL CENTERS

Question: You provided me with an October 19, 1981 report to the USDA proposing organizational and geographic changes for cartography, employee development, and information services in the SCS as the basis of your decision to consolidate the NTC's. The General Accounting Office expressed serious concern with the SCS management proposal in December 1981. The SCS report to USDA does not consider the technical functions you are currently proposing to consolidate. The GAO report also states, "as a result of our review, we have concluded that neither the Service's October 19 proposal nor its supporting data provides an adequate basis for judging the merits of the proposed move to Fort Worth. Without concluding whether such a move can ultimately be justified, we believe that the October 19 proposal is sufficiently flawed to render it inadequate as a basis for decision." Are you supporting your current decision based on the October 19, 1981 report? If not, could you provide the subcommittee a copy of the report by SCS justifying the proposed action? If yes, given the GAO's response to the October 19th plan, on what basis is the consolidation going forward?

Answer: We provided you with a copy of the October 19, 1981 report as an example of the kind of data we will provide to the Department as we finalize our current proposal. It is not the total basis for our current decision. The action taken in 1981, however, did essentially establish Fort Worth as the most cost effective location. Inasmuch as about one-half of the total complement of NTC personnel are now located at Fort Worth, it is obvious that we should continue to consider that as the appropriate location. We expect to have the final package ready to send to the Office of the Secretary during the week of May 5, 1986. We will provide the subcommittee with a copy of our report at that time.

COSTS OF CONSOLIDATING TECHNICAL CENTERS

Question: The estimated one-time cost of consolidating the technical function of the NTC's has ranged from $5.4 million to $21.6 million. Please provide the subcommittee a breakdown by Center of the savings to be realized by this move. Does this include the cost to prepare the Fort Worth office to accommodate additional staff? Over the past three or four years, SCS has transferred 33 employees of the Water Supply Forecast Staff and Multi-state Planning Staff to Portland, West NTC, while spending $180,000 to remodel the building where the staff is housed and $183,000 for new computer equipment. Do you consider these expenditures inconsistent with the October 19th plan? What assurance can you give me that your present plan will not result in similar inconsistent expenditures?

Answer: The estimate we have developed in my office for the one-time cost of consolidating is $5.4 million. This amount as well as the estimated savings in annual operating costs are broken down by category and by NTC in the table I am submitting for the record. Space is available at Fort Worth at or near the current center. Additional space will be needed at Fort Worth to accomodate the additional staff. An estimate of the additional annual rental cost for this space is estimated at $131,000 and is included as a part of the recurring operating budget. The total cost at Fort Worth is estimated to be $500 thousand less than the aggregate space costs at the four current NTC's. Some remodeling may be necessary, but it will be under the jurisdiction of GSA.

The Snow Survey and Water Supply Forecasting Staff will remain in Portland, as will the Multi-State Planning Staff. Remodeling done in their behalf will not have been in vain. The computer equipment is used almost exclusively by the two units to remain in Portland. These expenditures, therefore, have not been inconsistent with our proposal to consolidate the remaining functions. [The information follows:]

APRIL 29, 1986

NATIONAL TECHNICAL CENTER CONSOLIDATION
($1,000)

	Savings Chester	Savings Lincoln	Savings Portland	Increase Cost Fort Worth	Total Change
Recurring Budgets:					
Personnel	- 2,484	- 3,677	- 3,191	+ 6,808	-2,546
Relocations	- 31	- 2	+ 19	+ 107	+ 93
Travel	- 257	- 247	- 292	+ 1,162	+ 366
Communications	- 136	- 86	- 112	+ 186	- 148
Space (SLUC)	- 164	- 317	- 184	+ 131	- 534
All Other	- 239	- 175	- 585	+ 869	- 130
Gross Budget	- 3,311	- 4,504	- 4,345	9,261	-2,899

One Time Costs:	Chester	Lincoln	Portland	Fort Worth	Total
Lump Sum Leave	54	67	59		180
Severance Pay	169	212	183		564
Relocation of Employees	1,316	1,708	1,400		4,424
Equipment & Facilities	57	60	58	63	238
Total	1,596	2,047	1,700	63	5,406

CONSOLIDATED TECHNICAL CENTER FUNCTIONS

Question: It is my understanding that the function of the consolidated NTC's will change and that direct assistance in the form of production work such as engineering design, construction engineering, landscape architecture, and other services to your state and field offices will be essentially eliminated. As a matter of fact, I understand that direct assistance, currently the number one priority of NTC, has been relegated to a distant third or fourth priority of function. The change in function seems to be in concert with the thinking in your Assistant Chief's 1981 report which viewed one center as significantly different, reporting "while multiple TSC's were viewed as action-oriented units whose primary purpose was technical assistance to the field, the single TSC was conceived more as a 'center of excellence' where SCS's top technical experts would be located to serve as sources of technology transfer and research development." Do you continue to maintain, as you reported to me, that there will not be a reduction in relevant services to the states and field offices?"

Answer: Yes, I continue to maintain that there will not be a major reduction in relevant services to the states and field offices. This is not to say, however, that the types of services and the manner in which they are delivered will not be modified to some extent. First, we intend to delegate as much authority as practicable to our State Conservationists. The agency has matured to the point where most expertise needed to deal with the day-to-day work is available in our state offices. This means we will do fewer reviews and appraisals at the NTC. In instances where two or three states require a particular function, but not on a full-time basis, we will expect those states to jointly acquire that function, and share the resource. The most important functions of the technical center will be to monitor research, develop new technology, translate research and technology into field useable procedures, and provide training in their use. I continue to maintain that we must give constant and priority attention to providing services to landusers through a strong, highly qualified cadre of field technicians. The NTC will provide technical support and training as necessary to assure continued excellence.

Question: You have claimed that with modern communication and transportation services and computer technology more efficient service can be provided to states and field offices from one central location in Fort Worth. Since you have centralized cartography, employee development, and information services in 1981, I request that you provide this subcommittee an analysis of the quantity, quality, timeliness, and cost of services provided post consolidation versus preconsolidation for the functions already consolidated.

Answer: Since these are discrete functions, I will deal with each separately.

a. Cartography. Because of changes in reporting practices, changes in cartographic technology, and modifications in policies and programs, it is not possible to make a valid comparison of services provided before and after consolidation. Prior to consolidation, the total cost of map products produced averaged about $8 million per year. In 1985, nearly 73,000 separate products produced cost $5.4 million. As one could expect, there was a drop in timeliness of services for the year or so following consolidation. However, a survey made during the 3 month period in 1984 (by asking each "customer" to respond to a questionnaire) showed that 93 percent of the users were satisfied with the delivery time. A similar survey made before consolidation showed 95 percent satisfaction. There has been an increase in contracting for photographic reproduction of conservation plan maps and for the printing of soil survey reports. Both activities were at new highs in 1985. As for quality, it, too, dropped during the transition, but has returned to its formerly high quality. Staff level before consolidation was 316. It is now 133.

b. Employee Development. The training function, too, has changed in character. Although five positions were eliminated with an annual savings of $158,000, more importantly, we have improved consistency in training nationally, increased delegation to our state offices to provide more on-site training, and have assigned the NTC the function of providing classroom training, development of home study courses, and general guidance in training techniques. Further, we have just completed a major study of employee development, have raised the level of awareness of training needs throughout SCS, appointed a high level training advisory committee, and are providing a system for each employee to maintain a personal development plan, with proficiency levels established throughout his career. Centralization has enhanced this activity, not detracted from it.

c. Information. The public information function of SCS was in a state of transition before consolidation at the South NTC. At each of four technical centers, the information staff numbered three professionals at most. Their individual skills and activities were varied, so that the leadership and assistance to states were not consistent. Their activities were changing for two basic reasons:

(1) The increasing capability of state public affairs specialists, who could manage local and statewide information emphases with a minimum direct production or training assistance from a technical center; and

(2) The increasing need for coordinated national public awareness activities with more unified themes and products, including the greater use of audiovisual products to support training and internal communications.

Consolidation at the South NTC provided for training and internal communications. Such a staffing and equipment array would have been difficult and expensive to place in four NTC's. Since the consolidated unit has been fully operational, the quantity, quality, timeliness and cost of services from this video production unit have improved steadily. It is difficult, however, to directly compare these values before and since consolidation, since no directly comparable unit was in place at the four NTC's.

The South NTC also has provided some limited assistance to states in conservation education and campaign planning, but these functions now can best be aided by the existing National Headquarters' Public Information Staff in concert with the state public affairs specialists.

TECHNICAL CENTER COORDINATION WITH OTHER AGENCIES

Question: The NTC's have been relied upon to analyze and technically represent agricultural and conservation concerns and issues unique to the areas they serve. How do you propose to maintain timely and appropriate liaison and coordination with agencies such as USFS, BLM, USF&W, Departments of Natural Resources, Land Grant Universities, state land use agencies, etc. on issues such as interstate/international water quality, anadramous fisheries, Columbia River Gorge, salinity management, and water management?

Answer: We expect SCS State Conservationists to maintain appropriate liaison and cooperative relationships with other federal and state agencies that have crosscutting programs in their respective states. Where issues cross state boundaries, one of the State Conservationists will be assigned leadership for coordination with authority to speak for the agency. Where technical guidance or expertise is necessary that is not available in the state offices involved, it will be provided by the NTC. So far as National Headquarters liaison with other agencies is concerned, it will be provided by top level specialists and program leaders at SCS's National Headquarters.

GRAMM-RUDMAN-HOLLINGS IMPACT ON TECHNICAL CENTERS

Question: The Gramm-Rudman-Hollings legislation has been mentioned in previous correspondence as the reason for the proposed consolidation of the NTC's. Under Gramm-Rudman-Hollings there was a March 1, 1986, line item sequestration of 4.3 percent, but no program changes were mandated by that legislation. The legislation also assumes that the budget deficit will be reduced to $144 billion in fiscal year 1987, but Congress establishes the priorities to reach those targets. Is it not premature to proceed with any action on this matter until Congress has established the funding levels for fiscal year 1987?

Answer: Even though no program changes are mandated by Gramm-Rudman-Hollings budget reductions, they still require that we reassess our priorities and balance of personnel in various locations and functions to be sure we are operating as efficiently as possible. Our first line of defense to deal with resource problems facing the nation is at the field level. As budgets decrease, we first look at technical and administrative support to see if reductions can be made before reducing field forces. We are convinced that, regardless of the final outcome of the 1987 budget deliberations, we have opportunites to improve our operations. We do not believe, therefore, that it is premature to proceed with this consolidation. Our success will be based on conservation applied to the land, which occurs, primarily, through one-on-one contact with landusers by our field technicians.

ALTERNATIVES TO TECHNICAL CENTER CONSOLIDATION

Question: What other alternatives were considered to reach the reductions proposed in the President's fiscal year 1987 budget? Did these alternatives include phasing out cartographic services? Reducing staffing for information resource management? Reducing specialized data base management? Why were these alternatives not considered as areas to consolidation?

Answer: The President's fiscal year 1987 budget calls for complete elimination of several of our on-going programs, including watershed planning and construction, the Great Plains Conservation Program, and Resource Conservation and Development. If these program terminations are permitted by the Congress, we will have less need for many services provided by the NTC's and we will act accordingly. Irrespective of the future of appropriations, we have underway ongoing studies under the provisions of OMB Circular A-76 to investigate the opportunities for further contracting-out of cartographic services, soil survey services, and information services (audio-visual in particular). Also underway are studies to improve productivity in specialized areas such as engineering. Where these studies show opportunities for improved management, we will implement them. None of these activities, however, should be considered as alternatives to consolidating our NTC's but rather as continuing and complementary efforts to reduce Federal expenditures through better management and streamlining of our operations.

QUESTIONS SUBMITTED BY SENATOR MATTINGLY

Thank you, Mr. Chairman. It would seem that we have enough witnesses and a broad enough area of topics to keep us busy for numerous days if we were to proceed to question each individual thoroughly on the many important aspects of the programs which are on today's agenda. I realize that we do not have that kind of time, Mr. Chairman, and so I will request that many of my questions for the various witnesses be included in the record of this hearing along with a request that the appropriate answers be furnished in writing in a timely fashion.

I join in welcoming these distinguished individuals before us today, and I look forward to hearing their proposals as well as their answers to the verbal questions which will be posed to them during the course of this hearing. At the outset, I do want to express my personal appreciation for the efforts of Dan Amstutz, the Under Secretary of International Affairs and Commodity Programs. His efforts under the leadership of our new Secretary, Mr. Dick Lyng, in implementing the so-called "export enhancement" program have made great strides in recent weeks. I know we are all hopeful that the program, which utilizes our nation's surplus commodities acquired under the price-support programs in an attempt to combat the unfair, predatory subsidies and other repugnant trade practices, will finally force offending nations to bargain in good faith to end these despicable practices.

I would also commend Peter Myers as he moves from his position at Natural Resources and Environment into the Deputy Secretary slot. I might add that this will be an especially difficult challenge, because Secretary Lyng knows the job requirements first-hand and will probably expect no less from you, Peter, than he did of himself when he held the position. However, if your performance to date is any indication, I know we can look forward to working closely and constructively with you for the mutual benefit of American farmers and agri-business in the future.

As indicated, I will have a few questions as we go along. Thank you.

SOIL SAVINGS

Question: Mr. Scaling, you are probably aware that the Senate Budget Committee has recommended that soil conservation programs be generally retained in the 1987 budget at or near 1986 service delivery levels as opposed to the deep cuts suggested in the Executive Budget. Can you give the committee some idea what this funding differential will mean in tons of topsoil which will be saved in this one program area alone?

Answer: During FY 1985, soil erosion was reduced by about 230.5 million tons through the assistance provided under the various programs administered by the Soil Conservation Service. An estimated 90-95% of this reduction was achieved through the conservation technical assistance program. Because the President's 1987 budget would continue a full technical assistance program, we would expect to be able to continue to achieve about this level of soil savings even though other SCS programs are proposed for termination. In addition, the Department projects that a cumulative erosion reduction of 316 million tons per year would be achieved related to the 15 million acres of cropland expected to come under the Conservation Reserve Program by the end of 1987. This would more than offset any losses in soil savings which might result from the program terminations proposed in the 1987 budget.

Question: Also, do you have any estimate as to additional topsoil savings which might be attributable to the new conservation reserve and softwood timber conservation provisions of the 1985 farm bill if they are fully implemented? If possible, could you also break those figures out to reflect what additional savings we might realize if the eligibility requirement is lowered to 2-T land instead of 3-T?

Answer: The Department estimates that annual soil savings of 764 million tons would be achieved with a 40 million acre conservation reserve program following the 5-year signup period. This averages about 19 tons per acre per year enrolled in the program. This estimate is based on the 2-T eligibility criteria. The 3-T eligibility criteria is being used initially in order to direct the program towards the most seriously eroding acres first.

Our preliminary figures for soil erosion controlled on the acres accepted during the March 3 - 14, 1986 signup is 24 tons per acre. Although, at this rate a 40 million acre program would control about 960 million tons annually, it is unlikely that this could be achieved.

If a 2-T eligibility criteria is used for future signup periods, as is provided by the interm rules, the soil saved per acre would be less and would depend upon how many acres of the land eroding between 2-T and 3-T finally enter the program. The estimate is that the soil savings would be around 19 tons per acre as we originally projected rather than the 24 tons per acre.

The softwood timber conservation provision authorizes up to 50,000 acres of marginal land to be converted to softwood timber. There is not a requirement that the "marginal land" be defined as highly erodible, only that the land must have been used to produce a commodity or for pasture. The erosion controlled by such a program would depend upon how the Secretary defines "marginal land".

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

STATEMENTS OF:

DANIEL AMSTUTZ, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, DEPARTMENT OF AGRICULTURE

MILTON HERTZ, ACTING ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

INTRODUCTION OF WITNESSES

Senator COCHRAN. We will turn now to the ASCS programs and international programs for the balance of the hearing.

As I mentioned before, we appreciate very much having with us the Under Secretary for International Affairs and Commodity Programs, Mr. Daniel Amstutz. He has colleagues with him, including Mr. Hertz of ASCS; Mrs. Wallace, who is head of the Office of International Cooperation and Development; Mr. Kay, of the Foreign Agricultural Service; and Mr. Sims, the General Sales Manager. We appreciate the attendance of this panel.

Let me recognize Mr. Amstutz for any introductory comments or observations at this point.

ASCS/CCC OPENING REMARKS

Mr. AMSTUTZ. Thank you, Mr. Chairman. As you indicated, I have with me on my left, Milton Hertz, the Acting Administrator of ASCS; Dick Goldberg, Deputy Under Secretary; next to him, Joan Wallace, Administrator of the Office of International Cooperation and Development; to my immediate right, Mr. Tom Kay, Administrator of the Foreign Agricultural Service; next to him, Mr. Mel Sims, our General Sales Manager.

I have a few comments to make, Mr. Chairman, and then also with your indulgence, I would suggest we first proceed to ASCS and then to the international agencies.

Our outlay estimates for the Commodity Credit Corporation for both fiscal years 1986 and 1987 will be influenced by signup for the 1986-crop programs, which ends April 25. Because details of these programs were announced after the budget estimates had been developed, the programs being offered are not fully reflected in those estimates. The extent of program participation will greatly influence outlays in both fiscal year 1986 and fiscal year 1987.

Once signup has been completed, we shall be evaluating the effect of the results on outlay estimates for both years.

I wish to take this opportunity, Mr. Chairman, to thank the committee for providing the nearly $6.5 billion of fiscal year 1986 supplemental appropriations to CCC during the past 2 months. However, the Corporation will be needing further supplemental appropriations in the near future, if it is to continue to meet its program and payment obligations.

The situation in fiscal year 1986 illustrates the difficulties inherent in estimating annual CCC program activity and outlays. To reduce future uncertainty and to ensure orderly CCC operations, we are again requesting in fiscal year 1987, permanent, indefinite authority for CCC to be reimbursed directly from the Treasury as needed, rather than through the appropriations process.

Since the existing limit on CCC borrowing is set at $25 billion, the only way CCC can stay in operation is for Congress to continually replenish it for its actual and anticipated losses. As the committee is aware, with CCC's outlays and losses at record levels in recent years, its borrowing authority has been depleted on several occasions.

For the Agricultural Stabilization and Conservation Service, additional funds will be needed this year for salaries and expenses to carry out 1985 farm bill program provisions, and we have requested supplemental CCC transfer authority in the President's budget for this purpose.

Mr. Chairman, I would like to turn to Mr. Hertz, who will go into more detail.

Senator COCHRAN. Thank you very much, Mr. Amstutz. Mr. Hertz, you are recognized.

UNANTICIPATED COSTS TO CCC

Mr. HERTZ. Mr. Chairman, I would like to comment further on Mr. Amstutz's statements about the supplemental required for the operation of the salaries and expenses account in ASCS. When we went through the initial budget process more than a year ago, looking at 1986, little did we realize that we would be making commodity loans at all-time record highs, nor could we anticipate several new programs in the 1985 farm bill, including the Conservation Reserve and the Dairy Termination Program, or the overall complexity of the programs that would put an extreme burden on our county office operations and the number of people we needed to carry out those programs.

So as Mr. Amstutz has said, the $71 million that was requested as a supplemental to carry out these programs is critically needed.

DAIRY INDEMNITY PROGRAM

Senator Bumpers mentioned earlier the Dairy Indemnity Program. At the present time, we have a request for a $6 million supplemental that would be used to fund the program in the States affected by heptachlor contamination. Approximately $5 million of this would be for indemnity payments to the dairymen, and $1 million would be for the testing program that our sister agencies, APHIS and FSIS, would continue to conduct.

A supplemental pending in the House includes a $10 million appropriation for the Emergency Conservation Program. This relates basically to several Western States—California, Nevada, Colorado, and Arizona—where extreme weather conditions have rendered cropland nonproductive unless many, many conservation and cleanup measures are applied.

I believe, with those points, Mr. Chairman, I would stop and ask if there are any questions.

PREPARED STATEMENT

Senator COCHRAN. It's hard to tell how long questions are going to be directed. I'm trying to decide whether to go through the entire panel. I think we'll go on and hear from every member of the panel. We have statements from each member of the panel, which we appreciate having, and those, of course, will be made a part of the record in full, and we would encourage you to make any summary comments or give us any highlights from the statements that you care to, and then we'll have a chance for a discussion.

[The statement follows:]

STATEMENT OF MILTON HERTZ

Mr. Chairman and Members of the Subcommittee, I appreciate this opportunity to discuss the fiscal year 1987 budget request for the Agricultural Stabilization and Conservation Service. The Food Security Act of 1985 includes important provisions for this agency, provisions which will have substantial effects on all facets of our mission -- conservation, stabilization, and service. I would like to highlight our request for all three of these areas.

Conservation Reserve

In formulating the 1985 Farm Bill, the Congress identified conservation as one of agriculture's most critical needs. The provisions of the Food Security Act give the national conservation effort a major new focus -- the Conservation Reserve Program.

This program is an investment in the future. Its primary objective is to help farmers prevent or control the critical soil erosion now occurring on more than a third of America's cropland -- a condition which, if left unchecked, would reduce the Nation's long-term capacity to produce food and fiber. At the same time, the program will help adjust the production of some agricultural commodities currently in surplus -- cotton, sorghum, wheat, corn, soybeans, and small grains. These objectives will be accomplished by removing from cultivation for a decade or more as many as 45 million acres of highly erodible cropland.

Farmers who place land in the reserve will enter into 10-year contracts in which they agree to remove land from production and install permanent vegetative cover. One of the eligibility criteria for cropland accepted into the reserve is that it must be eroding at a rate of at least three times the tolerance level -- that is, three times the rate at which soil forms -- so that the greatest conservation benefit will be achieved. The Soil Conservation Service will determine eligibility of the land and provide other technical assistance; the Forest Service will provide technical assistance for tree planting; and the Extension Service will lead the effort to inform landowners about the reserve and encourage participation.

Program plans call for enrolling a minimum of 5 million acres in 1986 and 10 million acres in 1987, up to a maximum of 45 million acres by 1990. The Budget includes $740 million for the first 15 million acres -- $190 million in 1986 and $550 million in 1987. However, during the signup held March 3 through 14, so many of the bidders asked unrealistically high rental payments that the enrollment target could not be met. Consequently, we have accepted 838,000 acres at this time and will offer a second 1986 signup period beginning May 5. Another signup is contemplated for the 1987 program year later this summer.

Other Conservation Programs

The 1987 Budget includes proposals to terminate the Agricultural Conservation Program, Forestry Incentives Program, Water Bank Program, and Emergency Conservation Program cost-share programs in fiscal year 1987. Major reductions to some of the programs were also proposed in fiscal year 1986, including rescission proposals for the Agricultural Conservation Program and Water Bank Program. We recognize that any decision to terminate a program is a difficult one. However, in light of the Nation's current budget deficit situation, we believe that these proposals are prudent ones and, given the major resource commitment of the Conservation Reserve Program, will have minimal impacts on overall efforts to preserve our valuable natural resources.

Commodity Credit Corporation Commodity Program Outlays

High 1985 crop production, a projected decrease in exports, and pressure on market prices are expected to produce record CCC outlays of $20.3 billion in fiscal year 1986. In fiscal year 1987, the first year that the new Farm Bill will be fully in effect, CCC outlays are expected to decline to $16.2 billion. This decrease is attributed primarily to lower projected loan activity for 1986 crops as a result of reduced loan rates under the new Farm

Bill, and to partial 1986-crop deficiency payments being made in advance at producer signup.

The fiscal year 1986 and 1987 CCC outlay estimates include the $823 million in reductions required by the 1986 sequester order. Due to the fact that outlays for any crop-year program generally are made over portions of two fiscal years, CCC spending reductions for the 1986-crop programs will occur in both fiscal year 1986 and fiscal year 1987. The Department announced on February 12 how the reductions under the Gramm-Rudman-Hollings Act will be applied to specific CCC programs. However, I would like to emphasize, Mr. Chairman, that the reductions will generally be applied by deducting 4.3 percent from amounts otherwise due under the programs subject to reduction. 1986 target prices and loan rates will remain unchanged.

CCC Borrowing Authority

This year the CCC is again in urgent need of additional capital to meet its program payment requirements. Because CCC was near the borrowing limit at the end of fiscal year 1985 and is projected to be close to the limit at the end of fiscal year 1986, its appropriation needs approximate the fiscal year 1986 net outlay estimate of $20.3 billion. The President's Budget included a permanent, indefinite supplemental appropriation request estimated at $7.950 billion. The Department subsequently testified in support of a total estimate of $8.850 billion. A total of $6.493 billion was appropriated in February and March. Without action by the Congress to provide for the balance of the President's request, CCC will be unable to finance all of its fiscal year 1986 payment requirements.

Our fiscal year 1987 budget proposal also reflects appropriation language changes which would provide permanent, indefinite appropriation authority for the Treasury to reimburse CCC for net realized losses. This proposed method of reimbursement would help avoid the interruptions in CCC operations that have been required in both fiscal year 1985 and 1986. In 1987 this reimbursement would total an estimated $16.8 billion which, again, is near the level of fiscal year 1987 CCC outlays.

Administrative Support

In fiscal year 1986, workload associated with implementing new Farm Bill provisions, record 1985-crop loanmaking in ASCS county offices, and an associated high level of loan and forfeiture activity in Kansas City field offices will place a major strain on ASCS operations. To support this workload, we are urgently requesting a supplemental of $71.6 million in CCC transfer authority for the ASCS Salaries and Expenses Account. However, even with favorable consideration of this supplemental, the timely administration of CCC programs will be significantly affected by the reduction of $18.7 million required by the 1986 Gramm-Rudman sequester order.

In Federal offices, we plan to achieve the 1986 Gramm-Rudman savings through equitable reductions in both personnel costs and other administrative costs. This plan includes a possible limited furlough for all Federal employees. In county offices, across-the-board reductions of 4.3 percent have been made to county office administrative allocations in all States, resulting in an estimated reduction of 767 county office staff-years below anticipated needs, largely in temporary employment.

In fiscal year 1987, we are proposing a net decrease in CCC transfers of $55 million from the adjusted fiscal year 1986 level. Beginning in fiscal year 1987, in order to reduce Federal funding for the administration and delivery of farm programs, we plan to implement expanded service fees in county offices. The fees will recover county office administrative costs related to 1986-crop programs from which a producer receives a direct benefit. These revenues, estimated at $46.3 million, would reduce the amount of funds that would otherwise have to be transferred from the CCC to ASCS. This proposal, which can be implemented under existing authorities, would reduce the 1987 Federal deficit by a like amount. The remaining $8.7 million net decrease is primarily due to increased automation savings under our State and county office automation project, partly offset by workload related to the new farm bill.

This concludes my prepared remarks. I will be happy to answer any questions you may have.

BIOGRAPHICAL SKETCH

MILTON J. HERTZ

Milton J. Hertz is Acting Administrator of the Agricultural Stabilization and Conservation Service (ASCS). He also serves as Acting Executive Vice President of the Commodity Credit Corporation (CCC).

Mr. Hertz was born in Elgin, North Dakota. He is a graduate of Mott Lincoln High School and Dickinson, North Dakota State College. He did graduate work at the University of Colorado at Boulder.

He has received the National Outstanding Young Farmer award, the North Dakota State University President's Award for soil conservation, and numerous State and county Soil Conservation Service awards for his farm.

Mr. Hertz is a member of the North Dakota Farm Bureau, North Dakota Grand Lodge AF&AM Elks Lodge, and the Outstanding Farmers of America fraternity.

Mr. Hertz and his wife Carol live in Vienna, Virginia. They have three children.

FOREIGN AGRICULTURAL SERVICE

STATEMENT OF TOM O. KAY, ADMINISTRATOR

ACCOMPANIED BY:

ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

RICHARD GOLDBERG, DEPUTY UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

FAS OPENING REMARKS

Mr. AMSTUTZ. Mr. Chairman, I'll just ask that we immediately go to Mr. Kay.

Senator COCHRAN. Mr. Kay, you may proceed.

Mr. KAY. Thank you, Mr. Chairman.

It is a pleasure today, Mr. Chairman, to appear before you and your committee to discuss the Foreign Agricultural Service. I would like to summarize the statement that was submitted for the record and point out a few highlights with your permission, sir.

We all agree that exports are vital to the economic vitality of U.S. agriculture, and we feel it is also the way to restore better income conditions for U.S. farmers.

Since the beginning of the 1980's, we've seen a decline in world trade of agricultural commodities. The United States has lost total exports as well as market position. The decline has been due to many factors, especially the lack of price competitiveness. Now we feel that the new farm bill can help turn this situation around.

Other economic conditions are also better for growth, such as the decline in the value of the dollar and the decline in interest rates, plus the belief that the world market will continue to expand.

GOALS OF TRADE NEGOTIATIONS

We have to deal in the Foreign Agricultural Service with trade policy, and, as you know, many trade barriers and practices continue to block access to markets. That's why we believe so strongly in the upcoming GATT negotiations in the new round of trade talks. We are after three things in those trade talks. We're after improvement in market access. We want to write effective GATT rules for controlling unfair trade practices, such as export subsidies, and as well to bring about a quicker dispute settlement in the GATT. And we would also like to impose greater discipline on the use of food, plant, and animal health restrictions to the extent that these constitute technical barriers to trade.

We are also involved in other negotiations this year, such as the enlargement of the European Economic Community to include Portugal and Spain. Perhaps we will be involved in the new trade talks with Canada on the free trade zone, should the Congress give permission to go ahead. We will also be dealing with Mexico and its request to join the GATT.

We continue to deal with Japan with respect to their quantitative and tariff restrictions on agricultural imports. We do believe that progress has been made with Japan, with Taiwan and Korea, with Colombia, with Canada, with Mexico, and in some areas with the European Economic Community.

MARKET DEVELOPMENT EFFORTS

We are also involved in the Foreign Agricultural Service with market development. Opening the doors to trade is part of the solution to boosting export sales, but using that access is the next step. We believe that in our cooperator program we have a unique relationship between the private sector and the Federal Government. The private sector and the Federal Government have long shared the responsibility for market development through the cooperator program.

In fiscal year 1987, we believe that a larger share of the fiscal responsibility must be borne by the private sector, even though the Government's share will continue to be significant.

Our market development program includes also the services of our agricultural trade offices. These offices provide the home base for our cooperators and exporters, where they can work together and sell together. This year we have opened three new trade offices in Istanbul, Baghdad, and Guangzhou, China. We are also looking forward to opening up a new trade office in Tokyo this year.

In addition, we are establishing in the Foreign Agricultural Service a new high-value, consumer-ready Processed Food Products Division this year.

We are making permanent the Agricultural Information and Marketing Services Program, better known as AIMS. This electronic network has provided over 5,000 trade opportunities during the last year, up some 35 percent from last year, and has resulted in export sales of $583 million of agricultural commodities.

We believe our global agricultural network of counselors, attachés, and trade officers, who represent and promote U.S. agricultural interests around the world, serves as a vital link for the development and implementation of all of our international programs. They work with Washington to provide information on world supply and demand for U.S. agricultural products, serving U.S. farmers and traders as well as the Congress and the executive branch.

FISCAL YEAR 1987 BUDGET

This leads me to our budget request for 1987. Our budget request for 1987 is $71.9 million. This represents an $11.1 million reduction from the amount appropriated for 1986 before the imposition of Gramm-

Rudman-Hollings. This represents an increase of $1.7 million for our worldwide attaché network, but also a decrease of $12.8 million for the cooperator program, which reduces the FAS contribution from about 30 percent to around 20 percent.

Thank you, Mr. Chairman, for the opportunity to present these remarks.

PREPARED STATEMENT

Senator COCHRAN. Thank you, Mr. Kay, for an excellent statement. We have your complete statement and it will be made part of the record.

[The statement follows.]

STATEMENT OF THOMAS O. KAY

Mr. Chairman, members of the Subcommittee. I appreciate this opportunity to meet with you to discuss the work of the Foreign Agricultural Service and to present our budget request for fiscal year 1987.

I remain convinced that exports are the way to restore better income conditions to U.S. farmers. I am also convinced that exports remain vital to restoring economic vitality to American agriculture.

This is a realistic goal to work toward over the next few years. The challenge is great, and FAS, with its global agricultural network can play a significant role in meeting that challenge.

Today I would like to review with the Committee how we see the coming months and the specific efforts we will undertake to improve our export prospects. Our presentation is broken down into six parts--situation and outlook; trade policy; export strategy; market development; and our global agricultural network. We will close with our specific budget request.

THE SITUATION AND OUTLOOK FOR U.S. AGRICULTURAL EXPORTS

I would like to focus briefly on the turnaround in exports which we expect under the new farm bill. Since the beginning of the 1980's, we have seen a decline in world trade of agricultural commodities. In recent years, we have lost not only total export sales, but also market position.

The slide in agricultural exports has been due to many forces but certainly a major factor has been our failure to keep a price posture which allowed our commodities to be competitive with those of other exporting countries. With the new legislation, the export decline can be turned around, but the going may be tough at times.

To be sure, export prospects are expected to improve. Loan rates for 1986 crop wheat and feed grains will be coming down sharply. As a result, U.S. agriculture should become more competitive in world markets. The question becomes "Will other countries begin to import more and will competing exporters slow down their production for export?"

We believe there will be sizable changes on both counts and that U.S. exports will resume their upward trend of earlier years. How soon and by how much is difficult to pinpoint, but already we can see signs that lower world market prices are causing exporters and importers to stop and rethink their agricultural and trade policies.

U.S. cotton and rice export sales should respond to the marketing loans mandated by the new legislation. Exports of other commodities, such as wheat will also begin to recover, as reduced loan rates allow U.S. prices to adjust to the realities of the world marketplace. The extent of this recovery in export sales will depend of course on the extent to which our prices are competitive. If U.S. domestic programs continue to hold U.S. farm prices above those in the world market, the turnaround in export sales will be delayed.

In addition to the market oriented features of the new farm bill, a number of other conditions for export growth are better than they have been in the recent past. The U.S. dollar has adjusted significantly in recent months. This should help our exports. Interest rates are declining, thereby improving somewhat the financial crunch felt by many importing countries.

Most importantly, over the long term we believe the world market will continue to expand. While production around the globe will increase, so will demand. The foreign market is the market of opportunity for American agriculture. If U.S. agriculture is to prosper, it must be a reliable and competitive supplier of agricultural exports to the world market. With the new farm bill, we are better poised to do that.

U.S. AGRICULTURAL EXPORT STRATEGY

While the new farm bill sets the United States on a more competitive course, we will not become fully competitive overnight. Also, our competitors will not easily give up the markets they have gained--often at U.S. expense--over the past decade. Therefore, we need a coordinated approach to ensure that we utilize available resources in the most effective manner.

The structure of world agricultural trade has changed sharply. Trade in processed food and agricultural products now exceeds trade in the traditional bulk items, but the United States has not fully participated in this growth area. But more importantly, trade barriers are more restrictive as most countries' tariff structures offer greater protection for the more processed items.

Thus, we are developing a two-pronged approach in response to these structural changes in world markets. For the processed products, we need to undertake more in-depth analysis of the trends in world trade and identify those products which offer the greatest market potential. Reduction of trade barriers for the products so identified should be given high priority in the upcoming round of multilateral trade negotiations and in our bilateral discussions with our trading partners.

For the traditional bulk products, our strategy will be to utilize the export credit program and other competitive tools until we become fully competitive.

In the short run we will work to counter export subsidies and other unfair trade practices, but over the long term, we must convince our trading partners to join with us in abandoning measures that distort comparative advantage.

TRADE POLICY

The farm bill will contribute importantly to restoring the price-competitiveness of U.S. commodities in world markets. But price and demand uncertainties aside, our exports face an array of foreign trade barriers and trade practices which, until removed or reduced, will deny the access to world markets that is essential if export growth is to lead the economic recovery of our farming sector.

We will be engaged in negotiations whose outcome will be critical to the success of our efforts to expand farm exports. Most comprehensive of these is the upcoming round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT). A preparatory committee is now determining the scope and objectives of these negotiations. We have three broad objectives in these negotiations: to improve access in foreign markets; to write effective GATT rules for controlling unfair trade practices such as export subsidization; and to impose greater discipline on the use of food, plant and animal health restrictions to the extent these constitute technical barriers to trade.

More immediately, we will engage in negotiations with the European Community (EC) related to its enlargement to include Spain and Portugal. We will concentrate our negotiating effort on assuring that the United States is properly compensated for Spain's and Portugal's adoption of more restrictive EC import policies. For sectors where EC, Spanish, and Portuguese import restrictions are not extensive, we will focus on preventing adoption of new import restrictions.

Consultations are being held with developing countries in relation to competitive need limits under the Generalized System of Preferences (GSP). Under the GSP program, duty-free treatment is not granted on products from any country when that country's shipments already account for half of U.S. imports of the product. The Trade and Tariff Act of 1984 permits this limit to be tightened or waived in consideration of actions beneficiary countries take with regard to U.S. exports. Decisions on these changes will be made early next year.

FAS is participating in negotiations to ensure that past tariff concessions will be preserved when most major trading countries change their tariffs to conform with a new nomenclature known as the Harmonized Commodity Description and Coding System. These negotiations should be completed by the end of this year so that the harmonized tariff schedules can be adopted at the beginning of 1988.

FAS also is involved in the negotiations between the United States and Canada relating to the formation of a free trade area. The Administration began a 60-day consultation period with the Congress on December 10, 1985. If Congress approves, preliminary discussions with Canada could begin by May 1986. These negotiations will be aimed at eliminating trade barriers, resulting in more trade in both directions and better economic use of our resources.

Other negotiations concern commitments Mexico will make if it decides to become a signatory to the GATT. Mexico is our single largest trade partner which is not a member of the GATT--the United States receives 60 percent of Mexico's agricultural exports and supplies about $1.5 billion, or 85 percent, of Mexico's agricultural imports. Mexico's membership would establish much needed procedures to govern our bilateral trade, making market access easier and more predictable.

We have achieved some notable results in the trade policy area in the past year. I would like to take a minute to review these.

Progress has been made with the Japanese in a number of areas. As a result of our efforts, Japan agreed last June to reduce its tariffs on a number of agricultural products of interest to U.S. producers, including wine, walnuts and chicken. These tariff concessions apply to $85 million in U.S. exports.

Within the context of our Market-Oriented-Sector-Selective (MOSS) talks, Japan has agreed to unilaterally reduce its tariffs on solid wood and wood panel products in 1987. Some $200 million in U.S. exports will benefit from these concessions which cost us nothing.

Studies are underway for the establishment of structural standards on a number of new generation wood panel products in which the United States is very competitive. U.S. observers are witnessing the tests and will be allowed to take part in the standards drafting process. In addition, the two countries are jointly reviewing Japan's building and fire codes which could stimulate greater use of wood products. We will continue to discuss these matters with the Japanese in the months ahead.

One very visible demonstration of the progress we have made in the wood products area is the construction of a wood demonstration structure in Tokyo. The target date for completion is May 1. The three-story building will feature all-wood construction, utilize modern building systems and products, and demonstrate the savings that can be achieved in building costs, time, and energy requirements by using wood.

We have also been successful in getting Japan to modify a procedural change in its administration of orange quotas which could have had a serious negative impact on U.S. orange exports to Japan. After strong objections from the U.S. government, the Japanese government assured us that its tree fruit legislation would be consistent with the

GATT and other international agreements. About $200 million in U.S. exports are involved.

Our trade policy work has been successful with other nations as well.

For example, as a result of trade negotiations Taiwan and Korea reduced agricultural and forestry tariffs on a broad range of agricultural products in 1985 having an export value of $185 million.

In Taiwan, action was taken on products with an import value of $100 million in 1984. U.S. exports of these products could more than double in the next two or three years, particularly as a result of Taiwan's agreement to take immediate steps to liberalize imports of cigarettes, wines and beer.

Consultations with Korea have improved market access for U.S. almonds, grapefruit and fresh cherries, among other products. Despite this progress, we still have market access problems in both of these countries, and we are continuing to press for further liberalization with officials in Taiwan and Korea.

Colombia has issued more import licenses for apples, lentils and peas, allowing U.S. exports of these commodities to increase.

After intensive discussions, the Canadian government agreed to voluntarily limit exports of millfeed to the United States. Canadian millfeed exports to the United States had been increasing because of the transportation subsidies implemented in 1984.

Canada also agreed to exempt high quality beef from its meat import law during 1985, opening the way for more imports of U.S. beef.

In mid-1985, Mexico removed a large number of agricultural products from the list of items requiring import licenses. The most significant agricultural products affected are hides, skins and offals.

Finally, last year was another of free access into the EC for oilseeds and non-grain feed ingredients, thereby helping to maintain a market for $2 billion in U.S. exports of these products. We satisfactorily resolved our canned fruit dispute with the Community and have made some progress toward a solution on citrus.

FAS will continue to work to eliminate barriers on specific products wherever these barriers exist.

MARKET DEVELOPMENT

The private sector and the Federal Government have long shared the responsibility for market development through the Cooperator Program.

The cooperators have contributed the major share of the operating expenses of this joint market development program. In addition, FAS depends on private sector organizations for the hands-on implementation of export market development projects.

Promotion programs include trade servicing, training and education programs, seminars, demonstrations, international trade exhibits, advertising, merchandising and trade missions to and from the United States.

Because of the seriousness of the federal budget situation, in fiscal year 1987 a much larger share of the fiscal responsibility for this effort must be borne by the private sector. I would like to emphasize, however, that the government's share of the market development effort will still be significant.

FAS also will continue to support market development through a wide range of activities in addition to the Cooperator Program.

Our Agricultural Trade Office program provides a home base overseas for FAS Cooperators and U.S. exporters and serves as a vital link in bringing buyers and sellers together.

To intensify our marketing efforts in regions we believe offer the greatest sales potential, Agricultural Trade Offices were opened in Istanbul, Turkey; Baghdad, Iraq; and Guangzhou, China, in the past year. To accomplish this, we closed our trade office in Warsaw, Poland, and scaled back some of our attache offices, primarily in Western Europe. We are constantly examining the effectiveness of overseas offices and shifting emphasis and resources to meet the greatest need in terms of tapping market potential for U.S. exporters.

This year, as part of our effort to capitalize on the growing international market for high-value agricultural products, we plan to open another trade office in Tokyo.

The increased focus on high-value and consumer ready products is part of our overall strategy to help boost U.S. exports. On balance since 1981, high value and consumer-ready products have held relatively stable in contrast to bulk commodity exports which have experienced sharp losses.

In recognition of the increasing importance of this market for U.S. exporters, FAS will establish a Processed Food Products Division this year. This division will focus on high-value and consumer-ready products which are in growing demand, particularly in developed countries which have high per capita incomes.

In addition, given the success of the 18-month pilot project phase of the Agricultural Information and Marketing Services program (AIMS) and its popularity with U.S. companies and State Departments of Agriculture, FAS has decided to make it a permanent program and will further develop it during the next year.

The AIMS mission is to encourage U.S. exporters to assume a more active role in pursuing export opportunities by providing them with timely marketing information.

An outside review panel, made up of representatives from both the private and public sector, concluded that AIMS significantly benefited the program's users. The report recommended that FAS continue AIMS and further enhance its coverage of hard-to-find international marketing information.

During 1985, AIMS distributed to U.S. firms--within 48 hours of importers' inquiries overseas--over 5,500 specific trade opportunities to the program's participants. That was up 35 percent from the previous year. These companies collectively reported AIMS-related export sales of $583 million--up 41 percent from the previous year.

GLOBAL AGRICULTURAL NETWORK

The vital link for the development and implementation of all our international programs is our network of agricultural counselors, attaches and trade officers who represent and promote U.S. agricultural interests around the world.

These agricultural experts work to help U.S. exporters make sales, to maximize trade access for U.S. products, to collect, analyze and report essential agricultural information, and to implement U.S. agricultural export programs.

FAS commodity and marketing specialists in Washington analyze the data collected overseas to produce commodity forecasts and guidance on market potential. Over the last few years, FAS has focused a great deal of effort on what the competition is doing. We have stepped up worldwide monitoring of day-to-day changes in world market prices and the intricacies of different terms, conditions, and competitive practices.

Together, FAS' overseas and Washington staff provide U.S. farmers and traders with timely information on world supply and demand for U.S. agricultural products and provide policy makers with information needed to make decisions regarding U.S. and international agricultural interests.

In addition, FAS staff here and around the world have provided increased support for trade negotiations and for the operation of the credit, sales, and food aid programs administered by the Office of the General Sales Manager which have been so important in moving U.S. farm products into export channels.

BUDGET REQUEST

FY 1986

Before discussing our budget request for FY 1987, I would like to briefly comment on the impact of the Balanced Budget and Emergency Deficit Control Act of 1985, more commonly referred to as Gramm-Rudman-Hollings, on our FY 1986 Budget.

Under the conditions of the legislation, FAS budget authority in FY 1986 will be reduced 4.3 percent from the current budget of $83.0 million to $79.5 million. Budget outlays will be reduced $3.5 million over a two-year period.

The spending reduction plan we have implemented will avoid personnel reductions or reductions in employee compensation through furloughs. In addition, we do not plan to eliminate or reduce any of our overseas offices. Instead, we have concentrated the reduction in headquarters spending areas such as travel, training, equipment, and contractual services. The actions we have taken will not cause any serious disruption in program operations.

FY 1987

The fiscal year 1987 budget request for FAS is $71.9 million. This represents an $11.1-million reduction from the amount appropriated for FY 1986 before the imposition of the Gramm-Rudman-Hollings reduction. The FY 1987 request includes an increase of $1.7 million to maintain current services of our worldwide agricultural counselor/attache network and our Agricultural Trade Offices, and a decrease of $12.8 million for the Foreign Market Development Cooperator Program.

The decrease in FAS funding for the Cooperator Program is in accordance with the Administration's government-wide policy to transfer a larger portion of the cost of certain government programs to the private sector. This budget request would effectively reduce the FAS contribution from approximately 30 percent of the total combined effort to 20 percent.

That concludes my statement, Mr. Chairman. I will be glad to respond to questions.

BIOGRAPHICAL SKETCH

WILLIAM L. DAVIS

Mr. William L. Davis is a native of Hecter Springs, Arkansas. He holds B.S. and M.S. degrees in Agricultural Economics from the University of Arkansas in Fayetteville.

Mr. Davis has spent his entire career with the Foreign Agricultural Service. His first position was as an Agricultural Economist with the Sugar and Tropical Products Division where he worked from 1959 to 1960. In 1960, he moved to the Foreign Regional Analysis Division until 1965, when he began a series of assignments with the Attache Service. He served as Assistant Attache in Ankara from 1965 to 1968, as Attache in Nairobi from 1968 to 1971, and returned to Ankara as Attache from 1971 to 1975. From 1975 to 1976, Mr. Davis served as a supervisory Agricultural Economist with the Cotton Division; and, in 1976, he became Director of the Cotton Division. Mr. Davis returned to the field in 1978 as Attache/Counselor in Beijing, and served as Counselor in Tokyo from 1981 to 1985. In May 1985, Mr. Davis assumed his present position as Assistant Administrator, Commodity and Marketing Programs.

Mr. Davis is married and lives in Camp Springs, Maryland.

OFFICE OF THE GENERAL SALES MANAGER

STATEMENT OF MELVIN E. SIMS, GENERAL SALES MANAGER

ACCOMPANIED BY ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

GSM OPENING REMARKS

Mr. AMSTUTZ. And if we might now have Mr. Sims, the General Sales Manager.

Senator COCHRAN. Mr. Sims.

Mr. SIMS. Thank you, Mr. Chairman and members of the subcommittee. I appreciate the opportunity to discuss the programs of the Office of the General Sales Manager and to present our budget proposal for fiscal year 1987.

Since I last appeared before this committee, the climate for agricultural exports has improved. Under the Food Security Act of 1985, the Secretary will be reducing price support loan rates for the 1986 crop of wheat and feed grains, which will not only help make our commodities more competitive, but will also lower the price umbrella under which our competitors are encouraged to produce surpluses.

Also the U.S. dollar has moved in the right direction, helping to make U.S. farm goods more affordable.

Despite the new farm bill and its heavy emphasis on exports, competition will still be fierce, and the U.S. Department of Agriculture's export programs continue to be crucial. These programs help to move a considerable amount of U.S. production into export channels. Last year, they helped move close to 13 percent of U.S. agricultural exports. This year, commercial credit guarantees and food aid programs could finance nearly one-fourth of our exports.

As a key representative of U.S. farmers abroad, the General Sales Manager is a traveling salesman with a territory that has no bounds. During the past year, I have visited over a dozen key markets in the Middle East, Africa, Asia, Europe, and South America to meet with foreign government officials, official buying agencies, private sector importers, and U.S. cooperator representatives. Key members of my staff have also traveled on similar missions to 22 countries during the same period. Numerous delegations visited us here in Washington to discuss our sales program, and in many cases make tenders while here.

EXPORT ENHANCEMENT PROGRAM

Under the Export Enhancement Program, which we call EEP, agricultural commodities owned by the Commodity Credit Corporation [CCC] are made available as a bonus to U.S. exporters to expand exports of

U.S. agricultural commodities into targeted markets. As of today, my office has approved for export over 3 million tons of wheat, nearly 335,000 tons of wheat flour, and 8,000 tons of frozen poultry.

CREDIT PROGRAMS

A total of $4.5 billion in GSM–102 credit guarantees was made available in fiscal year 1985. Of this, approximately $2.5 billion was registered by exporters for sales in 22 countries. All agricultural commodities, including some fish products, can be considered under the GSM–102 program.

In fiscal year 1986, the current authorized level for GSM–102 export credit guarantees is $4.785 billion. This level reflects the required 4.3-percent reduction to comply with Gramm-Rudman-Hollings.

Actual lines of credit under the GSM–102 program have been announced for over $3.6 billion to date. The major participants so far include Brazil, Egypt, Iraq, Korea, and Mexico.

PUBLIC LAW 480

The Public Law 480 program grew in fiscal year 1985 in response to the drought which struck many African countries. The program level was slightly above $2 billion, approximately $1 billion in titles I and III and another $1 billion in title II. Over 8.5 million tons were programmed in fiscal year 1985, about 3 million tons to Sub-Saharan Africa.

This fiscal year, the needs in Africa have declined. This, plus the Gramm-Rudman-Hollings reduction, result in a total Public Law 480 program level of $1.74 billion.

The title I program for fiscal year 1986 is $986 million. We anticipate signing agreements with 31 countries and exporting approximately 5.3 million tons of U.S. farm commodities.

The total title II fiscal year 1986 program level is $754 million, including some carried-in supplemental funds. Title II provides both development and humanitarian relief to combat malnutrition, especially in vulnerable groups. It is expected that these donations will total 2.2 million metric tons of food commodities valued at $438 million, which will be made available to about 70 countries this year.

SECTION 416

During fiscal year 1985, approximately 147,000 metric tons of dairy products were provided to 18 countries under section 416 agreements. The largest volume programs were to Mexico, 25,558 metric tons; Ethiopia, 23,200 metric tons; Chile, 20,002 metric tons; and Mauritania with 10,650 metric tons. During the current fiscal year, we expect to program a similar level of commodities.

SPECIAL AFRICAN SALES PROGRAM

In March 1984, the Commodity Credit Corporation was authorized by Congress to make available up to $90 million worth of commodities from its inventory for sales on a competitive bid basis or barter to U.S. exporters to sell to African countries requiring emergency food assistance. As of February 14, 1986, 429,555 tons of grain with an acquisition value of $89.9 million has been exported to 11 African countries. This program is now complete.

FISCAL YEAR 1987 BUDGET

I would now wish to highlight our budget proposal for fiscal year 1987, which demonstrates a continuing need for activities to help U.S. agricultural exports.

During fiscal year 1987, we intend to carry out the mandate for export credit programs as provided for in the Food Security Act of 1985. This includes $5 billion of short-term credit guarantees and $500 million for intermediate-term credit guarantees.

For fiscal year 1987, we are requesting a total program level of $1.544 billion for the Public Law 480 program, a decrease of $196 million from the fiscal year 1986 budget. This lower level reflects primarily the expectation that food aid needs in Sub-Saharan Africa in 1987 will be substantially below those of the past 2 years. For fiscal year 1987, we are requesting $6.1 million for the General Sales Manager's Office to carry out these programs, which will be funded by an allotment from the CCC.

Thank you, Mr. Chairman. I would welcome any questions.

PREPARED STATEMENT

Senator COCHRAN. Thank you, Mr. Sims. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF MELVIN E. SIMS

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to discuss the programs of the Office of the General Sales Manager and to present our budget proposals for FY 87.

Since I last appeared before this Committee, the climate for agricultural exports has improved. Under the Food Security Act of 1985, the Secretary will be reducing price support loan rates for 1986-crop wheat and feedgrains which not only will help make our commodities more competitive, but also will lower the price umbrella under which our competitors are encouraged to produce surpluses. Also, the U.S. dollar has moved in the right direction, helping to make U.S. farm goods more affordable.

But, despite the good signs, competition will continue to be fierce. Unmindful of market signs which should foster strong production cutbacks, some countries continue to gear up their agricultural infrastructures and further glut the market with commodities already in surplus. At the same time, a number of nations continue to struggle with burdensome debts that prevent them from buying all that they need.

Therefore, our export programs continue to be an important element in our competitiveness. They also help counteract the economic problems that erode some countries' buying power.

These programs help to move a considerable amount of U.S. production into export channels. Last year they helped move more than 13 percent of U.S. agricultural exports. This year, commercial credit guarantee and food aid programs could finance nearly a fourth of our exports.

As a key representative for U.S. farmers abroad, the General Sales Manager is a traveling salesman with a territory that has no bounds. Getting together face-to-face with clients has been extremely important in putting together deals in which buyer and seller are sometimes separated by half the globe.

In my role as General Sales Manager, during the past year I have visited over a dozen key markets in the Middle East, Africa, Asia, Europe and South America to meet with foreign government officials, official buying agencies, private sector importers, and U.S. cooperator representatives.

I have found that many State trading entities prefer to have the assurance of the General Sales Manager before buying U.S. farm products. Recognizing that my involvement is important to them, I have kept in close contact through visits, telephone calls and correspondence.

Let me give you a couple of examples. Last summer I spent several days in Baghdad meeting with Iraqi importers; we later announced for FY 1986 $500 million worth of GSM-102 credit guarantees for Iraq. We expect all of this to be used by the end of the fiscal year. When it was decided to include Iraq in the Export Enhancement Program, I returned to Baghdad to explain the mechanics of the program.

In January and again in February, I was in Algeria to answer questions about the Export Enhancement Program; subsequently, the Algerians purchased a million tons of U.S. wheat.

Key members of my staff also have traveled on similar missions to 22 countries. During the same period, numerous delegations visited us here to discuss our sales programs and, in many cases, make tenders while in Washington.

Export Enhancement Program

I would like to report briefly on the Export Enhancement Program (EEP) which Secretary Block announced in May of last year. Under this program, agricultural commodities owned by the Commodity Credit Corporation (CCC) are made available as a bonus to U.S. exporters to expand exports of U.S. agricultural commodities into targeted markets.

In June, two weeks after the program was launched, the first initiative under EEP gave U.S. exporters an opportunity to sell 1 million tons of wheat to Algeria. Subsequently, there have been 25 initiatives announced involving the export of wheat, wheat products, rice, poultry, barley malt, eggs, and dairy cattle.

The implementation of the Export Enhancement Program program did require the establishment of new procedures and rules. Naturally, some time was needed for potential importers and U.S. exporters to become familiar with these operational requirements.

As of April 11, my office has approved for export nearly 3 million tons of wheat, nearly 324,000 tons of wheat flour, and 8,000 tons of frozen poultry. U.S. exporters will be paid bonuses amounting to more than $106.9 million from CCC commodity inventories.

I would also like to note that the implementation of the Export Enhancement Program is another example of how the commodity analysis and market development functions of the Foreign Agricultural Service complement the program development role of the General Sales Manager.

Credit Programs

The GSM-102 program is designed to expand U.S. agricultural exports by stimulating U.S. bank financing of foreign purchases on credit terms of up to three years. The program operates in cases where credit is necessary to increase or maintain U.S. exports to a foreign market and where private financial institutions would be unwilling to provide financing without CCC guarantees.

A total of $4.5 billion in GSM-102 guarantees was made available in FY 1985 for straight guarantees. This excludes any guarantees offered as part of the blended credit program. Of this, $2.5 billion was registered by exporters for sales in 22 countries. We found that the GSM-102 package was not attractive to many customers because even with credit our competitor's prices were lower than ours, and there is a real reluctance by debt burdened countries to increase their debt service load.

All agricultural commodities, including some fish products, can be considered under the GSM-102 program. Among the commodities registered during FY 85 were wheat ($999 million), feed grains ($410 million), cotton ($348 million), rice ($193 million), protein meal ($98 million), and vegetable oils ($100 million).

Among other accomplishments, GSM-102 helped preserve our traditional wheat market in Colombia, increased Egyptian purchases of a variety of U.S. farm exports, expanded exports to Korea and helped maintain Iraq as the largest importer of U.S. rice.

In FY 1986, the current authorized levels for GSM-102 export credit guarantees is $4.785 billion. This level reflects the required 4.3 percent reduction to comply with the Gramm-Rudman-Hollings Act 1986 Sequester order. Actual lines of credit under the GSM-102 program have been announced for over $3.6 billion. Major participants include Brazil, Iraq, Korea, Egypt, and Mexico. As our prices become more competitive, we expect the actual sales registered this year to be higher than last year.

Public Law 480--Food for Peace Program

The Public Law 480 Food for Peace Program (P.L. 480) has an excellent record of success in supporting the economic, humanitarian, and foreign policy objectives of the United States.

The General Sales Manager has primary programing responsibility for the Title I concessional sales program, including Title III activities, and the Agency for International Development (AID) has comparable responsibility for the Title II donations program. Title I/III operational activities are also the responsibility of USDA, while Title II operational activities are the joint responsibility of USDA and AID.

The Title I concessional sales program has, over the years, been effective in both economic development and the creation of commercial markets for U.S. farm products. Among other achievements during the past year, we have maintained wheat, tallow and vegetable oil markets in Guatemala, assured needed food imports in the Dominican Republic, and increased the sales of wheat to Morocco.

The P.L. 480 program grew in FY 1985 in response to the drought which struck many African countries. The program level was slightly above $2 billion, approximately a billion dollars in both Title I and Title II. Over eight and a half million tons were programed in FY 1985, about three million tons to sub-Saharan Africa.

The assistance to Africa was provided primarily under the Title II program. Funds available to Title II activities included a special $384 million supplemental passed by Congress last summer. This supplemental was available through the end of December, and slightly over $130 million was carried into FY 1986. Assistance to Africa was also provided through the Title I program as well as the Section 416 overseas donation program. For the first time the Food Security Wheat Reserve was tapped, to provide 300,000 tons of wheat through Title II also to help in this extraordinary humanitarian response to human suffering.

This fiscal year, the needs in Africa have declined. This, plus the Gramm-Rudman-Hollings sequestration reduction, result in a total P.L. 480 program level of $1.740 billion.

The Title I program for 1986 is $986 million. We anticipate signing agreements with 31 countries and exporting approximately 5.3 million tons of U.S. farm commodities.

The total Title II FY 1986 program level is $754 million, including carried-in supplemental funds. Title II provides both development and humanitarian relief to combat malnutrition especially in vulnerable groups. It is expected that these donations will total 2.2 million metric tons of food commodities valued at $438 million which will be made available to about 70 countries this year.

Section 416

Under Section 416, commodities owned by the Commodity Credit Corporation due to price support programs may be donated through foreign governments, public and private nonprofit humanitarian organizations, and international organizations. However, donations must be coordinated with other U.S. foreign assistance efforts and comply with the principle of additionality. The Agency for International Development takes the lead for the Commodity Credit Corporation in program development for Section 416.

During FY 1985, approximately 147,000 metric tons of dairy products were provided to 18 different countries under Section 416 agreements. The largest volumes programed were to Mexico, 25,558 metric tons; Ethiopia, 23,200 metric tons; Chile, 20,002 metric tons; and Mauritania with 10,650 metric tons. During the current fiscal year, we expect to program a similar level of dairy commodities.

Special African Sales Program

In March 1984, the Commodity Credit Corporation was authorized by Congress to make available up to $90 million worth of commodities from its inventory for sale on a competitive bid basis or barter to U.S. exporters to sell to African countries requiring emergency food assistance.

As of February 14, 1986, 429,555 tons of grains, with an acquisition value of $89.9 million had been exported to 11 African countries. This program is now complete.

Budget Request for Fiscal 1987

I now wish to highlight our budget proposals for FY 1987, which demonstrate a continuing need for activities to help U.S. agricultural exports. Our budget request reflects a balance between this need and the need to achieve a reduced U.S. Government deficit.

CCC Export Credits

During FY 1987, we intend to carry out the mandates for export credit programs as provided for in the Food Security Act of 1985. This includes $5.0 billion of short-term export credit guarantees and $500 million of intermediate-term export credit guarantees.

P.L. 480

In 1987, we are requesting a total program level of $1.544 billion for the P.L. 480 program, a decrease of $196 million from the FY 1986 budget. Our request for the Title I/III sales program is $944.4 million, which will provide long-term concessional financing for approximately 5.3 million metric tons of agricultural commodity exports.

We are requesting a program level of $600 million for the Title II program, which will provide 1.9 million metric tons (on a grain equivalent basis) of food donations, the annual minimum tonnage for the program. The total tonnage under the P.L. 480 program is estimated at 7.2 million metric tons. While this is somewhat lower than FY 1986, it reflects primarily the expectation that food aid needs in sub-Saharan Africa in 1987 will be substantially below those of the past two years.

General Sales Manager

In FY 1987, we are requesting $6.1 million for the General Sales Manager's office to carry out these programs, which will be funded by allotment from the Commodity Credit Corporation

Thank you, Mr. Chairman. I welcome the opportunity to answer your questions.

OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT

STATEMENT OF JOAN S. WALLACE, ADMINISTRATOR

ACCOMPANIED BY ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

OICD PROGRAM HIGHLIGHTS

Mr. AMSTUTZ. And one more, Mr. Chairman, Dr. Wallace, Administrator, for the Office of International Cooperation and Development.

Senator COCHRAN. Welcome to the committee, Dr. Wallace.

Dr. WALLACE. Mr. Chairman and members of the subcommittee, I appreciate this opportunity to discuss the budget of the Office of International Cooperation and Development.

Since we have had a full morning and time is at a premium, I would like to submit my full testimony for the record, but now outline a few highlights.

Last year, we managed training for over 2,400 foreign agriculturalists from 110 nations. We sent 760 specialists to assist in 87 countries. We conducted 116 scientific exchanges with 33 nations and sponsored 505 research projects involving 22 countries.

The range of activities is far too broad to describe in detail, but let me mention just a couple of projects to illustrate the value of our programs.

When a serious outbreak of citrus canker endangered Florida's citrus industry, the Federal Government was forced to prohibit further field research on canker in this country. OICD's Binational Collaborative Research Program has enabled U.S. scientists to continue study of this costly disease by working with scientists in Argentina where citrus canker is endemic and field research has been going on for some time.

In Yugoslavia, researchers working under our Special Foreign Currency Research Program have devised a skin test for listeriosis in cattle. This disease, which can be transmitted to humans by way of dairy products, killed more than 90 people in the United States last year.

Because tobacco sales were down in Virginia, we were hoping to find an alternative crop for Virginia. We provided a small grant to the Virginia Polytechnic Institute to study the feasibility of growing marigolds in Virginia as a cash crop. U.S. poultry producers now import marigolds which they use for feed. This research can lead to a domestic supply.

Last fall, we sponsored a conference in India on the biological control of *Heliothis*, a family of insect pests that includes the bollworm, the corn earworm, the tomato fruitworm, and the tobacco budworm. Just two species of this family caused over 1 billion dollars' worth of damage to U.S. crops last year. The idea for the conference originated at the Delta States Research Center in Stoneville, MS. Scientists from 11 countries attended.

In our Scientific and Technical Exchange Program, there were two very interesting developments last year—the resumption of exchanges with the Soviet Union and with China. In the past, both exchanges have been a valuable source of information on agriculture output in these two countries, and they have acted as a vehicle for obtaining germplasm and biological control agents of insect pests and plant diseases.

As you can see, our programs contribute not only to other nations, but to the United States as well.

OICD BUDGET SUMMARY

I would now like to summarize our budget request. During 1987, the budget request provides for continuation of our scientific and technical exchange programs. It also proposes a number of reductions. The following programs and funds have been eliminated:

The first is the Special Foreign Currency Research Program; $3 million. The second is the Middle-Income Country Training Program; $1.5 million. The third is the Binational Collaborative Research Program; $590,000. And the fourth is the Agri-Business Information Center; $200,000. We will, however, continue to carry out our previous commitments in the special foreign currency and middle-income country training programs.

In addition, the International Organizational Affairs Function has been reduced by $30,000. These reductions reflect our commitment to comply with the President's plan to meet established deficit reduction targets.

I will be happy to answer any questions.

PREPARED STATEMENT

Senator COCHRAN. Thank you very much for your fine summary. We have your complete statement and it will be made part of the record.

[The statement follows:]

Statement of Dr. Joan S. Wallace

Mr. Chairman, members of the Subcommittee, I appreciate this opportunity to discuss the program and budget of the Office of International Cooperation and Development.

In 1985, we saw greater awareness of the problems of agriculture than at any time in recent history. The financial distress of our nation's farmers became the topic of scores of newspaper articles, editorials, and speeches. Even greater attention focused on the failure of agriculture in Africa, as the media brought the raw horror of famine into the homes of millions of Americans.

Clearly, there has never been a greater need for innovative agricultural programs than there is today. While OICD is a small agency, we are in a unique position to be innovative and adaptive. And we are among the few agencies in USDA that can not only help America's farmers, but also work to lessen the hunger that still afflicts a half billion people all over the globe.

PROGRAM HIGHLIGHTS

Without taking a great deal of your time this morning, I would like to highlight a few of our accomplishments.

Last year,

- -- we managed training for over 2,400 foreign agriculturists,
- -- we sent 760 specialists to assist 87 countries,
- -- we conducted 116 scientific exchanges with 33 nations, and
- -- we sponsored 505 research projects involving 22 countries.

As you ~~can see from these statistics~~, the range of our activities is extremely broad, far too broad to describe in detail here. But I would like to mention a few selected projects that illustrate the value of our programs to this nation's agriculture.

INTERNATIONAL RESEARCH

A number of our activities focus on putting new technology to work to support America's farmers. For example, in research under a cooperative U.S.-Israeli program, scientists are examining the use of solar technology to control soil-borne pests. The technique being studied is called solarization and involves the use of polyethylene sheets to cover the soil. This raises soil temperature in sunlight which then destroys a variety of soil-borne pathogens. Researchers feel that solarization shows considerable promise as an inexpensive addition to our arsenal in the fight against pests.

Research on citrus canker is another example of an OICD project benefiting the U.S. farmer. When a serious outbreak of citrus canker endangered the Florida citrus industry, the Federal government was forced to prohibit further field research on canker in this country. But our Binational Collaborative Research Program enabled U.S. scientists to continue study of this disease by working with scientists in Argentina, where citrus canker is endemic and field research has been going on for some time. We were able to forge ahead, looking for solutions to the canker problem when research might otherwise have been kept at a standstill.

Another one of our projects is improving early detection of fruitflies in U.S. fruit imports. Infested tropical fruit entering U.S. ports can be effectively quarantined, once fruitflies are identified. But port authorities must learn the technical skills needed to quickly identify these pests. Three cooperative projects between U.S. scientists and researchers in Costa Rica focus on rapid identification techniques.

We are also promoting research that can help our farmers find alternative crops. We recently set up a cooperative research program pairing scientists from Virginia Polytechnic Institute and Mexico in a study of the feasibility of growing marigolds in Virginia as an alternative cash crop in place of tobacco. U.S. poultry producers must now import the marigolds they use in poultry feed. This research could lead to a domestic source of supply.

In Yugoslavia, researchers working under our Special Foreign Currency Research Program have devised a skin test that detects listeriosis in livestock. Listeriosis, a bacterial disease which can be transmitted to humans via dairy products, killed more than 90 people and caused numerous miscarriages in California last year.

A follow-up study in Yugoslavia is investigating the pasteurization time and temperature needed to kill the listeria organism. This study is a joint effort of USDA, the Food and Drug Administration, and a Yugoslavian research institute. The survivability and growth of the organism in cheese is also being studied. It was contaminated cheese which caused last year's outbreak of listeriosis.

Listeriosis is endemic to Yugoslavia and several Yugoslav scientists have been working with the organism all of their professional careers.

SCIENTIFIC EXCHANGES

In addition to research projects, OICD also manages scientific exchanges. In designing these exchanges, we aim for practical projects that can be immediately useful to our agricultural producers. For example, the U.S. beekeeping industry is concerned about the impact that Africanized bees will have on crop pollination and future honey production. Last year we funded three scientific and technical exchanges with Mexico aimed at finding ways to monitor and control the spread of these bees and the mites they carry, and to help beekeepers deal more effectively with them once they arrive in the United States. We also sponsored a scientific symposium on Africanized bees in January and plan a follow-up workshop next year.

The spread of the Africanized bee is not only a source of concern to honey producers. Bees are the most important pollinator of alfalfa and other high-protein forages grown by Midwestern farmers. The parasitic mites carried into the U.S. by the Africanized bees threaten U.S. bee populations and this could significantly reduce the pollination of forages and their yields. To help counter this threat, we have just funded a project in Mexico to study exactly how Africanized bees and their parasites affect non-Africanized bee populations and bee pollination efficiency, and to find ways to minimize their negative impact on forage crop production.

Our exchange program with West Germany has brought new insights into the serious problem of acid rain damage to forests. U.S. and German scientists have realized that "acid" precipitation is only one component of the problem. There are many different types of pollutants besides acids causing damage to our forests.

Partly as a result of scientific exchanges with the West Germans, the U.S. scientific community has now broadened the focus of its studies from "acid" deposition to "atmospheric" deposition. This has saved the U.S. Forest Service research time and accelerated its research program by two or three years.

Two of the most interesting developments for us this year were the resumption of scientific and technical exchanges with the Soviet Union and China. A Protocol to resume activities under the U.S.-USSR Agreement on Cooperation in the Field of Agriculture was signed in June 1985 and provides for the exchange of ten U.S. and nine Soviet teams. Team exchanges with China will resume after the Joint Working Group meets in China in April. In the past, these exchanges have provided valuable information on agricultural output in these two countries and have acted as vehicles for resolving technical trade problems and improving overall trade relationships.

IMPACT OF GRAMM-RUDMAN-HOLLINGS ACT

Before I turn to the fiscal year 1987 budget, I would like to mention the impact of the Gramm-Rudman-Hollings Act in fiscal year 1986. Our appropriated account has been cut by $232 thousand and our Special Foreign Currency account by $128 thousand. These reductions will be achieved by curtailing travel, training, procurement, research, research grants, and other non-salary operating expenses. We will not have to furlough employees or run a reduction-in-force.

FISCAL YEAR 1987 BUDGET

During fiscal year 1987, our budget request provides for continuation of the scientific and technical exchange program, the technical assistance and training programs, and the country financed programs at approximately the same level as fiscal year 1986. You will remember that we receive funding for our technical assistance and training programs from outside sources, principally the Agency for International Development, the Food and Agriculture Organization of the U.N., and the World Bank. Our fiscal year 1987 request also proposes a number of reductions, primarily in our research programs. The following programs and funds have been reduced and/or eliminated: (1) The Special Foreign Currency Program, $3 million; (2) the Binational Collaborative Research Program, $590 thousand; (3) the Middle Income Country Training Program, $1.5 million; and (4) the Agriculture Information Center, $200 thousand. We will, however, continue to carry out previous commitments in the special foreign currency and middle income country training programs. In addition, the International Organization Affairs function is reduced by $30 thousand. These reductions reflect our commitment to comply with the President's plan to meet established deficit reduction targets.

This concludes my statement Mr. Chairman. However, I would like an addendum inserted into the record dealing with how development programs support U.S. agricultural trade. Now I will be happy to answer any questions at this time.

ADDENDUM

THE AMERICAN FARMER'S STAKE IN THE THIRD WORLD

Particularly in times of economic difficulty, there are those who question foreign assistance programs saying that we are only creating economic competition for ourselves.

The economic vitality of developing countries is extremely important to American farmers. While our export sales in recent years have slipped due to the high value of the dollar and subsidized exports by our competitors, it's critical to note that developing country markets still constitute a very high and growing percentage of our sales. For fiscal year 1985, these sales were around $13.2 billion -- roughly 42 percent of all our agricultural exports.

This pattern in U.S. farm exports is likely to continue in the future. For one thing, it's a matter of demographics. More than 3 out of 4 people already live in developing countries and that proportion will increase to more than 4 out of 5 by the year 2000. While Third World population continues to rise, the more traditional markets for U.S. agricultural exports -- Western Europe and Japan -- are experiencing little if any population growth. The population of Western Europe is not expected to rise at all between now and the year 2000. Japan's population is expected to grow by only 7 million.

Our traditional markets have already begun to stagnate or shrink. U.S. agricultural sales to the European Community dropped by nearly half between 1980 and 1985, while sales to Japan remained essentially flat. So it is clear that this Nation's farmers and agribusinesses have to look to the developing world for future export growth.

But what about the argument that we are creating competition for ourselves by helping developing countries to solve their agricultural problems? Well, for one thing, poor people make poor customers. The economic health of the Third World is critical for our own economic health. If these nations cannot produce and market their own agricultural and industrial products, they certainly will not be in a position to buy ours.

What all this boils down to is that it is not just humanitarian for the United States to invest in assisting and cooperating with other nations in agriculture. It is also good business. In the long run, we will have the satisfaction of knowing that we are helping our own farmers and strengthening our own agriculture, as we fight to overcome the hunger and poverty that still scar so much of the world.

BIOGRAPHICAL SKETCHES

HOWARD S. MARKS

Since June 1985, Howard S. Marks has been Associate Administrator of the Office of International Cooperation and Development (OICD) at the United States Department of Agriculture. In that capacity, he has been named vice-chairman of the Agricultural component of the U.S.-Algerian Joint Economic Commission which met in Algiers in mid-February 1986. He also headed the U.S. delegation to meetings between Egyptian and Israeli scientists in a project managed by OICD for the U.S. Agency for International Development in January 1986.

From 1975 to 1984, Mr. Marks was a senior advisor to United States Senator Charles H. Percy, Chairman of the Senate Foreign Relations Committee, where he worked on such agricultural projects as:

- Passage of a Senate Resolution urging the Administration to negotiate the 1983 Long-Term Agricultural Agreement with the Soviet Union;
- Coordinating a Congressional response to the European Community's threats to reduce access for U.S. animal feeds, such as Corn Gluten;
- Defeating acceptance of a report by the Council of the General Agreement on Tariffs and Trade (GATT) which would have damaged U.S. soybean exports to Western Europe.
- Building support for new uses of surplus commodities, such as fuel ethanol. In that capacity, Mr. Marks has worked closely with the National Corn Growers and Corn Refiners Association. In 1982, President Reagan publicly signed legislation drafted by Mr. Marks to facilitate the conversion of surplus government stocks to fuel ethanol.
- Helped develop support for exports of value-added processed foods.

Mr. Marks is a native of Illinois and holds a bachelors degree from the University of Illinois in Chicago and a masters degree from Northwestern University. He has been listed in "Who's Who in Washington."

Mr. Marks is married and the father of two children.

DR. JAMES L. WALKER

Dr. James L. Walker was appointed Assistant Administrator for International Research and Development on December 23, 1985. Dr. Walker manages the Office of International Cooperation and Development's worldwide agricultural activities in technical assistance, training, and research.

Dr. Walker formerly worked for the Office of Agriculture, Science and Technology Bureau, Agency for International Development (AID) as the Principal Agricultural Scientist and as Research Coordinator for the Agency's centrally-funded agricultural programs worldwide.

Dr. Walker, 53, has over 24 years experience in agricultural development in 45 foreign countries, and research and production experience with more than 20 crops and cropping systems in the tropics and subtropics. He designed and implemented several long-term, worldwide, multi-million dollar AID-funded agricultural biotechnology research projects.

Dr. Walker received the PH.D. degree in agronomy and soil science with a minor in geology (volcanology) at the University of Hawaii in 1962 after completing a B.S. in tropical crop production at U.H. and majoring in political science at the University of California at Santa Barbara. Since graduating from the University of Hawaii, he has worked extensively in tropical and subtropical research and development as a Research Soil Scientist with USDA/SCS; Associate Professor of Soil Science with North Carolina State University at Raleigh; Resident Scientist with the Tropical Agricultural Research and Training Center (CATIE/IICA) at Turrialba, Costa Rica; Technical Advisor to the Ministries of Agriculture of Central America and Panama; Consultant to international funding institutions; Professor of Agronomy at the University of Hawaii and, as a GS-16 Agricultural Research Networks Specialist with AID.

Dr. Walker is an American Society of Agronomy, ARCPACS nationally Certified Professional Agronomist and Certified Professional Soil Scientist. He is a member of Sigma XI, the Soil Science Society of America, the Crop Science Society of America, the International Soil Science Society, the Hawaiian Academy of Science, the Guatemalan Historical Society, MENSA, Sigma Phi Epsilon, and Rotary International. He is fluent in Spanish and German, and has authored or coauthored over 100 scientific publications in both English and Spanish on tropical agricultural subjects.

CCC FUNDING NEEDS

Senator COCHRAN. Mr. Secretary, there are a couple of questions I have regarding the supplemental. I know that CCC current estimates are higher than anticipated for 1986. We've already provided $6.5 billion in supplemental funding. I wonder how much more is going to be needed for 1986 and how soon it will be needed.

Mr. AMSTUTZ. As I indicated in my brief comments at the outset, Mr. Chairman, we'll be able to make an accurate assessment after the commodity program signup period has ended.

Senator COCHRAN. When is that?

Mr. AMSTUTZ. April 25. And we'll be sending estimates up here quickly. It's a little premature for us to be specific right now, but the need for additional funds surely will come sooner than we had expected.

Senator COCHRAN. We have a supplemental, as you know, that's under consideration on the House floor today, and we're going to markup on Thursday, so I was wondering whether or not we might anticipate having any formal request by Thursday.

Mr. AMSTUTZ. No; I don't think so.

EMERGENCY CONSERVATION PROGRAM

Senator COCHRAN. What about the money that the House has put in for the Emergency Conservation Program? I know Mr. Hertz referred to the flooding problems in some of the States and the fact that there has been some indication of need there for emergency work, conservation work. Does the administration support any inclusion of funding for the Emergency Conservation Program? Do you have anything in that account now, and if so, how much?

Mr. HERTZ. Mr. Chairman, we do not have any funds in that account right now.

Senator COCHRAN. None?

Mr. HERTZ. None.

Senator COCHRAN. What about the first part of the question? Do you support any amount of funding to be added to that account this year?

Mr. HERTZ. As I understand the request, it is in a House bill, and——

Senator COCHRAN. I know the House has put some in it. Do you support it? Does the administration support it?

Mr. AMSTUTZ. Mr. Chairman, I'm just not sure. But I will get that answer up to you speedily. We do support the $6 million requested for the Dairy Indemnity Program, and I can tell you that unequivocally.

DAIRY INDEMNITY PROGRAM

Senator COCHRAN. I know Senator Bumpers is interested in that and had a question about it earlier. You support that at a level of $6 million?

Mr. AMSTUTZ. $6 million, which is our estimate of what is required to take care of this problem.

Senator COCHRAN. Is it an indemnification program for farmers who have had to liquidate herds, or quarantine herds?

Mr. AMSTUTZ. That's right. It is an indemnification program, that's right.

Senator BUMPERS. Mr. Chairman, if you will yield at that point.

Senator COCHRAN. I'd be happy to yield.

Senator BUMPERS. Congressman Hammerschmidt told me last week that he was asking for $10 million in that bill for that program. What difference does it make? We're only going to spend what we have to spend. I'd hate to run out of money in that.

Mr. AMSTUTZ. Senator, the only comment I can make is that it's our very best judgment that $6 million will do it.

Senator COCHRAN. More than enough.

Mr. AMSTUTZ. Yes.

Senator COCHRAN. At this point, I'm going to reserve the balance of my questions on some of the other topics and recognize other Senators. Senator Burdick.

COOPERATOR PROGRAM REDUCTION

Senator BURDICK. Thank you, Mr. Chairman. The FAS is proposing to cut its budget for the Foreign Market Development Cooperator Program by $12.8 million. This represents approximately a 35-percent cut in the program. The program is paid for in the following ways: One-third of the cost of the Foreign Market Development Program is provided by FAS; another one-third is provided by the Cooperator, which are generally commodity groups such as U.S. Wheat Associates and the Soybean Growers; and the remaining one-third is paid for by third parties, generally the foreign interests involved.

I have heard from several groups who are concerned about this cut. The groups include the Soybean Growers, the Sunflower Association, wheat growers, grain producers, corn interests, and others.

Mr. Kay, you have testified about the need to improve our export markets and I'm anxious to do that. In the justification that you submitted to this committee, you list 31 achievements that have been accomplished through your work for the Market Development Cooperators to expand markets for U.S. agriculture commodities and food products, and that is very excellent, very good.

What bothers me now is why you are proposing to this committee and to this Congress a 35-percent cut in the cooperator program which has been so successful.

Mr. AMSTUTZ. Before Mr. Kay responds, Senator Burdick, I'd like to make several comments in this regard.

There is no question whatsoever that the administration wholeheartedly endorses the cooperator concept. It's something that has truly worked—this marriage between Government and the private sector in a common objective.

The chairman in his opening remarks outlined our dilemma this year. We have clear budget deficit targets that we must meet. And we say "must" because we think forced sequestering under Gramm-Rudman-Hollings in fiscal year 1987 could be devastating for agriculture. So we think it's enormously important that we avoid the necessity of that.

As we are faced with the task of cutting our expenditures so that the administration in total can get in under that deficit target, the first fact we are presented with is the distinction between programs that we consider entitlement programs and programs that are discretionary.

Now the fact is there simply are more entitlement programs than there are discretionary programs so it doesn't give us a lot of latitude. It does force us to cut into areas in which we believe and in which there is great interest.

On the positive side of this, I will make two comments. By forcing this belt-tightening, this whole process will require some prioritizing. That's always healthy. And I am confident that the top priority undertakings of this cooperator program will be met.

TARGETED EXPORT ASSISTANCE

Another point that is worth mentioning. The Congress gave us funds which are labeled targeted export assistance. We can use these funds not only to counteract 301 problems, which the Congress in giving us the funds highlighted, but other promotional market development areas as well. So far, we've announced programs for eight commodity areas, totaling some $26 million. More of these kind of announcements will be coming forth.

Via the targeted export assistance funds, approved projects in the area of interest of these cooperators can move forward. It doesn't entirely address their problem because a part of their problem is structural as opposed to project-related. But from the standpoint of followthrough, even acceleration in some project areas, targeted export assistance gives us that.

I'll let Mr. Kay make some more comments, but the two points I really want to leave you with are that there is no question about our belief in the program. The problem is, it's a tough chore to determine where to make cuts, and targeted export assistance does give us sort of a supplemental route to help in this area, even in the face of the cuts.

Senator BURDICK. I would just like to say that when I played football for the University of Minnesota, when we had a play that worked we kept using it. And, apparently, based upon your own testimony, this program is working. It seems to be the last program we should cut if it is working that well.

For example, I have statistics that show that the American Soybean Association Foreign Market Development Program returned over $66 in exports for each $1 expended, and added almost $200 million to the value of each year's crop of U.S. soybean growers. Now that's a success story.

Mr. AMSTUTZ. That is indeed. And we're hoping that because of that success story that there can be more coming from the private sector. That's a good sales pitch.

Senator BURDICK. Well, you're changing the formula, when you try to reduce the amount of expenditures that have made it successful. And you're getting to the gamble area. This is working, is my point.

IMPACT OF BUDGET REDUCTIONS ON COOPERATORS

This funding cut will prevent the cooperators from doing the work that they had committed to do. Don't cooperators make long-term commitments that will have to be canceled under this cut?

Mr. KAY. Senator, under the cooperator program, marketing plans are developed and approved in cooperation with the individual cooperators and FAS covering a period of 2 years. In 1986, when Gramm-Rudman-Hollings went into effect, we were told that for fiscal year 1986, these agreements would not be affected, but beginning in 1987, if a ceiling on outlays were imposed, it would be necessary to amend the marketing plans for 1987, resulting in a 35-percent reduction.

BARLEY IMPORTS

Senator BURDICK. One more question. Can you tell me why we recently had barley imports into this country?

Mr. KAY. Senator, it's the familiar story as to what happened to us in the years from 1981 to 1985 before the new farm bill came into being. There were those, I'm sure, who felt they could buy it cheaper on the international markets than they could buy it at home because of our high prices. This is not the first time that barley imports had come into the United States. Other barley imports had, I believe, come into Hawaii previously. But this, I'm sure, brought more attention to it than others did.

Senator BURDICK. Well, you told me—you verified what I said. But why?

Mr. KAY. Well, I'm sure it was a matter of cost. The importer decided he could buy more cheaply from New Zealand than he could buy from his own people here.

Senator BURDICK. So we're importing from New Zealand to undercut the American barley grower?

Mr. KAY. We aren't importing, no, sir. I don't have any jurisdiction over what an individual might want to do.

Senator BURDICK. Well, who does?

Mr. AMSTUTZ. The private market, Senator. And you're right, it's an extraordinary case. In my 30-some years' involvement in grain activities, this is the first I've known of barley from New Zealand to come into the United States. It's not unusual for malting barley to come down from Canada into the United States. But the dollar and cents difference was some—it seems to me, some $30 a ton. And so there was powerful incentive, obviously, for whoever imported it to do that.

As Mr. Kay has indicated and as others have indicated, with the loan levels that will be in effect for 1986-crop barley, I think that kind of surprise will be eliminated.

Senator BURDICK. Well, I just want to say in closing that I think you should reconsider this idea of disturbing a program that's working well all through the country. Some aren't working so well, but this is working well, and it looks like a good program. So I urge you to consider this some more.

Senator COCHRAN. Thank you, Senator. Senator Andrews.

SODBUSTER AND SWAMPBUSTER PROVISIONS

Senator ANDREWS. Thank you, Mr. Chairman. Mr. Hertz, my office has gotten a lot of calls on when the regulations are going to be issued for the sodbuster section of the farm bill. I've been told these regulations have been delayed because of the need to get the Conservation Reserve regulations out. Can you tell us the status of the sodbuster regulation?

Mr. HERTZ. We're working on them right now, Senator, but we have not projected a specific date as to when they will be out.

Senator ANDREWS. Are they going to be in force this year?

Mr. HERTZ. No.

Senator ANDREWS. OK. Well, that's good. What about swampbuster? Is swampbuster going to be in force this year?

Mr. HERTZ. It will be the same as the sodbuster.

Senator ANDREWS. Yes; but the answer is yes or no.

Mr. HERTZ. It's no.

Senator ANDREWS. OK. That gets us to the point, so the farmers will not have to worry about swampbuster or sodbuster being in effect this year.

Mr. HERTZ. Well, in a sense it will be in effect, Senator, in that if they—say for example—plough up highly erodible land this year, it would have to come into compliance with the sodbuster provisions as of 1987.

Senator ANDREWS. That's true but they're not going to be in force for this year's program.

Mr. HERTZ. That is true.

Senator ANDREWS. Now, when are you going to put together the regulations for sodbuster and swampbuster, and who's going to get input on that? Are you going to have some dreamy-eyed environmentalist that wouldn't know an acre of sand from an acre of bottomland muck put them together, or are you going to have some actual farmers put that regulation together?

Mr. HERTZ. Senator, I would hope that we'll have some individuals with farm background working on this project. The regulations will be put together cooperatively by ASCS and the Soil Conservation Service.

Senator ANDREWS. In other words, you're promising that you're going to let representatives of farm organizations take a look at these regulations while they're in the gestation period?

Mr. HERTZ. We would prefer to put the regulations together in-house, and then when they go into the Federal Register for comment, we would receive whatever comments were made about them.

Senator ANDREWS. Yes; but the point is, given your track record, wouldn't you be better off down there to have some farmer insight while you're putting it together, so we don't have to undo it all after we see the first glance in the Federal Register?

Mr. AMSTUTZ. Senator, it has been an absolute policy of the Department of Agriculture under both Secretary Block and Secretary Lyng that as new programs are enacted by the Congress, we welcome all input when we're in this process of writing the preliminary rules and so forth. We surely have considered and will continue to consider input we get when we're in this formulation process.

Senator ANDREWS. I'm going to quit while I'm ahead, because I assume that means you're going to accept some input from some of those of us who put those sections into the farm bill while you write the regulations, so we don't have to undo a goofed-up set of regulations after the fact.

Mr. AMSTUTZ. We surely will consider the input. We won't commit ourselves to agree to all of it.

Senator ANDREWS. We don't ask you to commit now; we just tell you that if you get the input ahead of time you might have to do less backtracking after the fact, and it saves all of us time and effort and all the rest.

CREDIT GUARANTEES

I was interested in Mr. Sims' statement, rather lengthy statement. He said that he intends to carry out the mandates for export credit programs provided for in the Food Security Act of 1985. This includes $5 billion in short-term export credit guarantees, $500 million of intermediate-term export credit guarantees. I heard you right, didn't I, Mr. Sims?

Mr. SIMS. That is correct.

Senator ANDREWS. I appreciate that, because it means that you have divorced yourself and your shop from that group called the Office of Management and Budget. Now, have you gotten any readout or permission from Mr. Amstutz and the rest for doing this?

Mind you, I am totally in favor of it. But I understood the administration sending a message that they intend to cut five. Because you are going with us, Mr. Sims, you are on the right track. [Laughter.]

But the point is, I heard some dim rumble from the Office of Management and Budget that they wanted to cut our $5 billion figure to $3 billion, and they wanted to zero out the $500 million in intermediate export credit.

Now what you testified to this committee is that this OMB approach is totally wrong-headed, and you do not agree with it.

Mr. SIMS. No, sir; that was not my particular choice of words. [Laughter.]

Senator ANDREWS. No; but, Mr. Sims, it is your particular choice of figures. And it is the figures we are talking about, because this is an appropriations hearing.

Mr. AMSTUTZ. Senator Andrews, I heard those rumbles as well. But neither you nor any other Member of the Congress heard them from either me or my office or any of the agencies that report——

Senator ANDREWS. In other words, the statement that the Office of Management and Budget was going to cut that $5 billion to $3 billion and to zero out the $500 million has now become inoperative.

Mr. AMSTUTZ. The only thing I can imagine, Senator, is in this whole process of looking at outlays, probably a number of things have been discussed at various times. I can only repeat what I have said. You have never heard from us other than what Mr. Sims has stated.

Senator ANDREWS. Well, you know, that one has been floating around out there for quite a while. And every now and then you do get a nugget of good stuff in one of these hearings. And that is one of those good nuggets.

And you know, they have told us—in fact, I do not even want to go into this because I am ahead of the game—but in page number 30–10 of the explanatory notes, they talk about how they are going to recommend—"they" being the administration—proposing legislation to reduce these levels to $3 billion and to zero out the $500 million.

But we now have testimony from you that that is inoperative. And I am so glad to have you on our side. And we will be glad to use that when we move against this wrong-headed administration approach that this sheet says is coming up shortly.

CCC FUNDING NEEDS

Now another thing. We understand the CCC is going to be out of money by the third week in May. That supplemental is coming down the pike. But you did not tell the chairman that we needed supplemental money for CCC in it, or at least I did not hear you say that.

Mr. AMSTUTZ. Yes; I did.

Senator ANDREWS. How much?

Mr. AMSTUTZ. That is what you did not hear. And as I said to the chairman——

Senator ANDREWS. I did not hear how much because you did not say how much.

Mr. AMSTUTZ. That is right. And as I said to the chairman, we will be able to make an accurate forecast of that after the 1986-crop signup is over and we can evaluate the numbers.

Senator ANDREWS. The trouble is, the train is about to go out of the station, because we are going to meet on that supplemental on Thursday.

Mr. AMSTUTZ. Yes; I understand.

Senator ANDREWS. And do you not think that it would be wise to get your act together so that you can tell us whether it is another $2 billion, or another $3 billion, or another $5 billion, so that we do not have to hold farmers up out there in the field. Would that not be the sensible way of doing it?

Mr. AMSTUTZ. I think we have advanced the sensible way of doing it, in my testimony this time and when I was up here 2 months ago—and that is permanent, indefinite authority. My sense is that this committee shares that view. And truly, Senator Andrews, that is the way to address it.

Senator ANDREWS. Well, this committee shares the view that that money has to be spent because it is due when they present the chits in the separate county ASCS offices. And all you are doing is confounding the problems farm families already have by holding back and holding back and not making that money available so they get shunted away from the credit window for a month, or a month and-a-half, or 2 months.

And if you could operate in a timely fashion, do you not think that would help the farm families out there? Do you not think it would be wise for you to get on Thursday when we consider the supplemental appropriation a dollar figure so we can plug that in?

PERMANENT, INDEFINITE AUTHORITY FOR CCC

Mr. AMSTUTZ. Well, Senator, I just have to repeat again what I said today. We are requesting permanent, indefinite authority for CCC to be reimbursed directly from the Treasury as needed, rather than through the appropriations process.

This matter was considered, I believe, by this subcommittee at the time of the farm bill. I believe in attacking problems at their basic cause, and permanent, indefinite authority is the way to address this.

Senator ANDREWS. And you are telling us that the Office of Management and Budget will support that if this subcommittee puts that into the supplemental?

Mr. AMSTUTZ. Yes, sir; I am. The administration supports that.

Senator ANDREWS. Another bit of good news. Gosh, we are ahead. I hesitate to ask my——

Senator COCHRAN. If the Senator would yield on that point.

Senator ANDREWS. Sure, Mr. Chairman.

Senator COCHRAN. As the Senator may remember, last year this committee recommended a current, indefinite appropriation, and we included it in our appropriations bill. The House would not go along with it.

Senator ANDREWS. That is right.

Senator COCHRAN. That is where the difficulty came. And your friends over there with whom you worked for a good many years are committed to the notion that the CCC should come before the Congress each year and be reimbursed only for net realized losses.

Senator ANDREWS. I know, and I do not always agree with my good friends over there, even my particularly good friend who speaks with the same accent you do, Mr. Chairman. [Laughter.]

Senator COCHRAN. I wouldn't go that far. [Laughter.]

Senator ANDREWS. No; he has a more discernible accent, might I assure the chairman. Nonetheless, I think it is something that we have got to address, and I am glad we have got two sides of the equation now. The Senate was doing it before in this subcommittee and in the full committee. We could not get the Office of Management and Budget.

Now we have got the Office of Management and Budget with us. Perhaps we will be able to roll our friends over there in the House.

EXPORT FORECAST

One final question, Mr. Amstutz. Senator Mattingly, who was here earlier, congratulated you on the great work you are doing in exports. Are our exports up this fiscal year over last year?

Mr. AMSTUTZ. No; and anyone would have to be totally ignorant of the situation if they did not acknowledge the fact that we still have a major problem around the world of too much commodity to sell, and too few markets in which to sell it. The size of world trade is smaller than we would like, Senator, and the level of competition is very high.

I think perhaps what Senator Mattingly was referring to is that so far we have announced some 30 export enhancement initiatives.

Senator ANDREWS. Well, I know. But I hope you will understand why I am going to withhold my congratulations until that export curve begins to go up and you start exporting more.

EXCLUSION OF DURUM WHEAT

And one of the things that bothers me, Mr. Secretary, about this whole thing, is as I understand the export enhancement program, currently durum wheat—a crop and a commodity that is quite dear to my heart—is not eligible for any export enhancement. Why not? Why this discrimination against a commodity that is grown in our State and could enjoy a pretty good export sale?

Mr. AMSTUTZ. It is not excluded, Senator, and Mr. Sims will comment.

Senator ANDREWS. Well, in the recent sale of wheat to Algeria, I understand that durum was not included and that the Department refused to give the same kind of export enhancement to a sale of durum that they were giving to other wheat. Am I right or am I wrong?

Mr. SIMS. You have picked out the only exception. All other countries——

Senator ANDREWS. What do you mean, "picked out the only exception?" I just asked the Secretary whether durum was excluded and now you tell me I am right after he said I was wrong.

Mr. SIMS. In the case of Algeria, they were buying most of their durum from the United States and the remainder from Canada. We wanted to have this program lead to additionality. And so we announced in that case only, 1 million tons of non-durum wheat.

Now in Tunisia, they just recently purchased about 50,000 tons, and all of that was durum wheat. In no other country is there an exclusion on durum except in Algeria. And there we were trying not to displace our own market that we have there.

Senator ANDREWS. Well, let me get back to square one. We have established what the facts were, that in that recently announced EEP-approved sale of 1 million tons of wheat to Algeria, durum was, indeed and in fact, excluded.

Now, Mr. Amstutz, can you assure this committee that in future sales durum will not be excluded?

Mr. AMSTUTZ. Senator, we will conduct the program as we have said we would—in other words, on a targeted basis and subject to whatever nuances may exist in any targeting. But as a flatout, categorical statement, durum wheat is not excluded from the program. It was excluded from one particular initiative to Algeria out of a total of 30 announced. And as Mr. Sims said, part of the reason was, we did not want to displace our own market.

MARKET DISPLACEMENT

Senator ANDREWS. How do you not displace your own market by excluding from this kind of export enhancement one of the commodities that makes up our list of offerings?

Mr. AMSTUTZ. You do not displace your own market if you do not artificially lower the value of that particular commodity that we had every reason to believe would be competitively priced into that market.

Senator ANDREWS. But I understand that the EC, particularly Greece, will move in to fill this. Does that help the durum growers in America?

Mr. SIMS. We are aware of that possibility. We are taking another look at the durum situation in Algeria. If we think we are likely to lose that market to the EC, we will then move to correct that.

Senator ANDREWS. Well, that is fine. But this is, in effect, after the fact. You say you excluded durum from this sale to Algeria. You now agree that my facts are on the button, that Greece is now threatening to send durum into this market. So now you are going to reevaluate. Is that not sort of like locking the barn after the horse is gone?

Mr. SIMS. Historically, they had not been buying durum from the European Community.

Senator ANDREWS. No; but now, because we did not do that, they are looking at it, are they not?

Mr. SIMS. They are saying that they may.

Senator ANDREWS. That is right. So what you did was totally wrongheaded and not in the best interest of exports from this country essentially.

Mr. SIMS. We thought they would continue to buy, and they have, to a certain extent. Now what they do in the future, we need to watch very closely and react to it.

Senator ANDREWS. Then let us get back to the final agreement that I liked when I heard it first, when Secretary Amstutz pointed out that they were not going to exclude durum as a general rule of thumb.

Would you say, Mr. Amstutz, that given this experience with the EC moving in behind our mistake in this Algerian sale that you will take a little better look or a little more friendly look at durum in the future than you did in this instance?

Mr. AMSTUTZ. I do not think we have taken an unfriendly look at durum.

Senator ANDREWS. Well, you excluded it from the sale to Algeria. You now—your man says that the EC is moving in to fill that vacuum. I do not know how much more in error you could have been. All we are asking for is a little more understanding toward durum as an export commodity.

Mr. AMSTUTZ. Well, as I say, it is certainly eligible for the program, Senator. And that has always been the case. We will continue with this targeted approach, as we have said frequently, and strive to fulfill those criteria that we have announced. And to the extent that durum fulfills those criteria, it will be included.

Senator ANDREWS. You are not insisting that this targeted approach was anything that was mandated to you by Congress, are you?

Mr. AMSTUTZ. No, sir.

Senator ANDREWS. OK, I just wanted to make that crystal clear. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator.

Senator Abdnor.

BASE ACREAGE ESTABLISHMENT

Senator ABDNOR. Thank you, Mr. Chairman.

I am going to jump to a different gear here for a minute, if I can. Mr. Hertz, I guess you are the one I should address this to. It deals with ASCS programs. We put some new regulations into effect in a number of our programs. None of us knew for sure how the proposals were going to work out.

But we are having some troubles in my State when it comes to establishing these base acres for our crops. You have got some regulations, I guess, for people who are trying to establish themselves. There are only certain things that are allowed to be used in this.

You allow the use of the warehouse receipts and harvesting records and spraying records to help verify base acres. Some of those are not much help to farmers. Some of these people do a lot of their own spraying. They raise their corn and they feed it to the cattle themselves, and finish out the cattle. They haven't got warehouse receipts to prove this. It presents somewhat of a problem.

How about adding something that will let them use the seed receipts or something where they bought seed? I do not know how good that would be, but it would give them a little extra support to prove something. I mean, a lot of our farmers, wheat growers, they use their own wheat, so that would not help in that instance. But certainly with the feed grain, the corn, they can show where they bought seed crop for planting purposes, and that would be of some help here.

Have you thought anything about that?

Mr. HERTZ. Senator, we have directed our county offices in working with their county committees, that if a producer does not have records of a base that was established in years past, any evidence he has that would be acceptable to the county committee would be acceptable to us.

Senator ABDNOR. So they get that much—that broad a——

Mr. HERTZ. Yes; if the county committee determined that that evidence was valid, we would accept it.

USE OF AERIAL PHOTOGRAPHY

Senator ABDNOR. All right, let me throw a real curve then. I guess you were supposed to destroy all your aerial slides that are used to verify base acres in planting which were over 2 years old. Now some of these offices did not do it. A lot of them—most of them in South Dakota have not.

Apparently, you do not like to have them—you do not want them to, or they are not supposed to use that. Is there any reason, if they have the proof there with aerial pictures and facts that they could not go back and use those over those first 3 years?

Mr. HERTZ. I do not know the background of those slides and why they were to be destroyed after 2 years, but——

Senator ABDNOR. Will you look at that and get back to us?

Mr. HERTZ. Yes, sir.

Senator ABDNOR. So we know when we are asked——

Mr. HERTZ. We will get back to you with that, Senator.

PLACING CROPS UNDER LOAN

Senator ABDNOR. OK. Now let me ask you one other thing. South Dakota normally is not one of your flood States, although we certainly have had other years, bad years. But I do not know of any worse than now.

I was home over the weekend, and it was my second trip around some of that area. In one of our counties, I do not know if they are ever going to get in the field this year. That water table is so high, if there is any kind of a low spot, it's just a pool of water. We have got roads 5 feet under water.

I saw, believe me, one place, a railroad track and a telegraph pole, but all I could see was the cross-section there. I do not know when they are going to get in their fields. There is corn there that has never gotten picked.

You know, I think the rule is such that you have to have all your crop under loan by May 1. These guys hope some day to get it out. Surprisingly, it is still on the stalk and hanging there, and they go out and cut it.

Is there any chance to extend for those emergency cases like that the time period for a loan?

Mr. HERTZ. I would think, Senator, in this particular case of extreme weather conditions last fall and again this spring, we would look favorably at an extension.

PREVENTED PLANTING

Senator ABDNOR. Well, this brings us around. I am not exaggerating in any way on this. I am really concerned. These people, if they get in the fields—now, they could go mud it in, I guess, and put it in. And then suddenly they are eligible for deficiency payments and all of that. Even with the best of conditions now, they are going to be awfully late, I am afraid, getting their feed grain in, let alone those who are trying to plant oats or something. I think that is long gone by.

They tell me in this one county I was in—and the Corps of Engineers has some of their engineers out there looking over it, assessing it—that at least 30 percent of the land will not be usable this year. And the land that will be, is going to be late coming into being.

Did you not have some program called the Prevented Planting Payment Program?

Mr. HERTZ. Yes; we do have a prevented planting provision. I am not certain what the eligibility requirements are, but I can get back to you on that.

Tom, do you want to comment on that?

Mr. VONGARLEM. Senator, under our prevented planting provision, producers only get history credit for their crops. They will not earn deficiency payments.

Senator ABDNOR. That deficiency payment is clearly out the window on any hopes for these people if they do not get it planted? I mean, are you encouraging them to go plant their crops, even though they mud it in, and that will make them eligible for deficiency payment?

Mr. VONGARLEM. The Food Security Act of 1985 required at least 50 percent of the permitted acreage be planted prior to any deficiency payments being made.

Senator ABDNOR. So if they can get 50 percent of their land on their base acres they would eligible for the deficiency payment on everything?

Mr. VONGARLEM. No; anything that they get planted would be eligible.

Senator ABDNOR. But that is all?

Mr. VONGARLEM. Yes.

Senator ABDNOR. Now I went through this a couple of years ago with crop insurance, Mr. Chairman. They signed up—and under the water, they could not get it in. But some people went out and mudded enough in and it may have never come up, but they were eligible for insurance. But the guy who had the crop insurance, if he did not get something started up, planted, he was not in it.

I would think if he signed up and paid something on it, it sure showed good intentions of trying it. You know, I am talking about a real emergency situation. Some of these people, you know, they have just gotten through one disaster. We had that early snow, and last year they had the drought, and now this on top of it. What a heck of a time to have all these things come together.

And I just wondered if—maybe I should visit with you personally about this sometime.

Mr. HERTZ. I would be happy to do that, Senator.

Senator ABDNOR. Rather than try to take the time now. All right.

DAIRY TERMINATION PROGRAM

Senator ABDNOR. Is the dairy program under you?

Mr. HERTZ. Yes.

Senator ABDNOR. What are you doing on that? Are you working to get a more orderly market of dairy cattle under this dairy program? Isn't it that two-thirds of the cattle go to market during the first signup?

Mr. HERTZ. That's right, sir.

Senator ABDNOR. I have a bunch of cattlemen in my State. I don't even think they are on the market. I didn't realize how the price would go and that futures would drop. I guess they are coming back a little. Are there any other thoughts going on down there about this?

Mr. HERTZ. I believe the way the market has come back, that it has in itself forced an orderly marketing of the dairy cattle and the beef cattle that are going on the market. We are gearing our purchases of red meat to the Dairy Termination Program.

Senator ABDNOR. What is it, 400 million pounds?

Mr. AMSTUTZ. Senator, there is no question that the heaviest part of the dairy cattle slaughter is in the first disposal period, as you have said. I have to say that logic always indicated that would be the case, when the law was enacted. We are doing everything we can to accelerate the export of live animals. We have announced credit programs to all countries that have expressed any kind of an interest in taking live animals. We are negotiating either ourselves or via the private sector in a number of countries, trying to get these animals moved as dairy cows. We are not sure how many head will move that way. We are actively at work, and we are very hopeful.

We have commenced purchasing meat for domestic distribution to the School Lunch Program, for example, at the rate of something like 7 million pounds a week. That will continue. I believe that the domestic purchases will be about 140 million pounds out of the mandated 200 million pounds through the end of August. We are front-end loading that program.

Last Friday we announced that we had reached an agreement with the Department of Defense, where we will move to them 44 million pounds of beef. At that announcement we said that we expected the purchase announcements to be issued this coming Wednesday. That process of buying will commence immediately.

In addition to that, we are in negotiation with other overseas buyers. Our emphasis is to get as much as possible of this 400 million pounds—200 million domestic, 200 million export—sold and in the market process to dovetail with the slaughter schedule.

Senator ABDNOR. How many pounds? You are talking about the 400 million. How much do you expect now, how many pounds of meat in the program?

Mr. AMSTUTZ. All 400 million pounds.

Senator ABDNOR. Is it going to be a lot more than 400 million pounds of dairy beef being processed?

Mr. AMSTUTZ. If we are at all successful in moving live animals, the 400 million will come very close.

COORDINATION OF DAIRY PROGRAMS

Senator ABDNOR. We just had this horrible blizzard last week in South Dakota. There are some cattle losses, calf losses, of 50 percent at least, and in some cases, 70 percent. A young man who worked for me, his father lost 70 percent of his cows out there.

I wonder if some of those ranchers who raise cattle would be interested in the 300- to 600-pound calves. Dairy cattlemen and cattlemen don't always judge cattle the same way. I don't know how they would buy that.

Will there be a lot of numbers of that size, of calves, coming into the market through this dairy program?

Mr. AMSTUTZ. I forget the number, but no, not a great deal of those. Most of them are cows. It seems to me it is a couple of hundred thousand head.

Senator ABDNOR. I don't suppose the calf loss is that great throughout the Nation but it surely was there. It was just a wet heavy snow that you just couldn't get out of. It suffocated them. They were out there 2 or 3 hours. Some of these cowboys at ranches don't have those fancy barns like the dairy people to bring them into.

I just thought there was some way I could tie the two together.

Mr. AMSTUTZ. It is difficult. When the milk contamination problem came up in Arkansas and Missouri, we wondered how we could tie the Dairy Termination Program into a dairy indemnification program. The deeper one digs into that, the more difficult it becomes. Our conclusion in that particular instance was the only real answer for addressing that problem was to resurrect the Dairy Indemnity Program. Otherwise, we would just create sort of a bureaucratic albatross.

Senator ABDNOR. I may submit additional questions. Thank you.

Senator COCHRAN. Thank you very much, Senator. You are certainly entitled to submit those questions. I have some that I will be submitting, because we didn't have an opportunity to ask all of those which we had in mind today. We do hope that they can be answered. I have several questions of the Foreign Agricultural Service on the subject of our Export Market Development Cooperator Program and to the Secretary on the Whole Herd Dairy Buy-Out Program. The Export Credit Guarantee Program is an extremely important program in my judgment. I will submit a few questions on that subject as well.

MARKETING LOAN CONCEPT

In connection with our efforts to improve our trade balance, I was disturbed to read that we are seeing a much greater number of imports coming into the country in the case of farm products than ever before. The report I saw indicated that our trade surplus this year is projected to decrease from, and this is just in agriculture, $26.6 billion, which was a 1980 figure, to $11.4 billion in 1985. Imports have increased from $17.2 billion in 1980 to $19.8 billion in 1985.

I am concerned about that. I would like to have some guidance from you as to what programs, if any, or initiatives the Department of Agriculture has in mind to try to reverse this trend.

In the agriculture bill that was written last year by the Congress, it was my suggestion that we get away from the old kind of loan program whereby we set a predetermined loan level for repayment—a nonrecourse loan—but we go to a marketing loan arrangement. That has been mandated for cotton and rice and it is authorized for other commodity programs, such as wheat and feed grains.

To what extent do you think that is going to help us improve our competitive relationship with foreign producers, and will this help turn around this growing imbalance in our agriculture trade?

Mr. AMSTUTZ. Senator, it is our judgment that the Food Security Act of 1985 in all program commodities will help this balance. Not only in cotton and rice, where, as you have said, we have the marketing loan concept, but in wheat and feed grains as well, where we have a significantly lower loan.

The other factor that is of prime importance that will help is developments in the dollar exchange rate vis-a-vis other currencies. Clearly, both our support levels and the dollar relative to other currencies are important factors in our export competitiveness and marketability.

Senator COCHRAN. Is the marketing loan being used in cotton and rice?

Mr. AMSTUTZ. Yes; the programs have been announced.

Senator COCHRAN. To what extent do you consider it to have been successful so far?

Mr. AMSTUTZ. Senator, the rice program just began. The cotton program, even though all the details are out on it, is just beginning. It is really too early to measure their success.

DECISIONS MADE BY FOREIGN PRODUCERS

Senator COCHRAN. To what extent are we finding that foreign producers are making decisions that we can't really control that are leading to more effective competition from abroad?

Mr. AMSTUTZ. There is no question that has been a factor. We have contended, and I think many in the Congress have agreed with us, that one decision that has affected plantings in other countries has been the support level that our previous programs have provided. The market tends to settle down at the U.S. support price level. If the U.S. support price is at a level high enough to make for profitable production of similar crops in other countries, it provides powerful incentive for other countries to plant them and grow them.

WORLD MARKET GROWTH

We have addressed that in large part in this new farm bill. I will make another comment on something that is enormously important but that seems to get lost in the discussion. The fact is that markets around the world are not growing as they were at the turn of this decade. In the late 1970's through 1981, we had rapidly expanding global markets. Commencing in 1982, world trade relative to consumption, relative to production, started to diminish. We have an enormous problem with buying power around the world. As economies expand, particularly Third World economies, we will see markets expand once again at a more rapid rate.

There is no question but what in our basic commodities, we need growing markets in Third World areas. That's where the potential for demand increase is the greatest. We have had this dual problem: too much production around the world relative to market realities, and the fact that market size was diminishing.

U.S. GRAIN QUALITY

Senator COCHRAN. It has come to my attention that there have been some complaints about the quality of U.S. grain compared with the quality of grain obtainable from some other countries. Specifically, I've been told that China has cut into some of our share of Japan's corn market because of assertions that the quality of its grain is higher than that from the United States.

I was going to ask Mr. Sims whether he has run into complaints of this kind, and has that been a difficulty encountered by the Office of the General Sales Manager?

Mr. SIMS. Yes; I have heard some criticism of quality. Sometimes it is of a seasonal nature, and sometimes it is merely words to try to beat down the price. We do need to be extremely conscious of producing a better quality product.

In the case of China, I think their production is such that they have some available for export in some of those nearby countries. It is laid in there at a lesser price. That doesn't mean that we need not work diligently at trying to keep our quality at a very high level.

MIDDLE-INCOME COUNTRY TRAINING PROGRAM

Senator COCHRAN. I have some other questions which I will submit for the record to the Office of International Cooperation and Development on the 1987 budget request. I am, of course, interested in the programs of that agency generally. Specifically, I am interested in the Middle-Income Country Training Program. I notice there is no request for funding for the program which this year I think had an appropriation of $1.5 million. It is a very modest program.

Let me ask this while we are here. Some worried that we might be creating competition for American farmers by having programs of this kind, where there are international exchanges and joint research and study projects.

What is your reaction to that, Dr. Wallace? What can I say you told me to help refute any such suggestions if I hear any like that?

Dr. WALLACE. We do hear that comment occasionally, Senator. Our feeling is that the programs that we operate are programs that benefit the United States absolutely, immediately, and directly. Our science programs and our exchange programs often have this immediate benefit. Our programs of training, however, do a variety of things. They introduce the trainees to the United States and provide them with contacts in the United States. The Middle-Income Country Program brought a large number of private sector agriculturalists to our country. We are beginning to see that some purchases have been made by the countries that are represented in the program.

We had one scholar, for example, who developed a poultry program using World Bank funds and took a U.S. grain company to his country to talk to the officials in the private sector there.

We know that if we do not strengthen the economies of developing countries, they will not be our trading partners. Poor people do not make good trading partners. We have found that our experience in training has created a climate for trade, and the middle-income countries of course are better able to trade.

We see this program, since it was not in the President's budget, as being a pilot program. We have had 3 years of it. We are finishing our evaluation as of June this year. We have some preliminary findings.

The number of participants increased about 33 percent from 1984 to 1985. We expect to increase even more this year because we have been able to leverage the appropriated funds. The American Soybean Association as well as the Feed Grains Association have both added funds so that we can use the $1.5 million for more students. We have also received funds from the countries themselves so that the funds can be leveraged.

This year we expect enrollment to go up—the first year was 102 students, the second year we increased by the 33 percent and now we expect to go up to about 170 students.

The number of countries participating increased from five to eight. A survey of participants revealed high ratings for the programs in terms of learning new knowledge and skills. Even though they are learning knowledge and skills and resolving some of their basic needs, they are also becoming much more closely related to the United States.

One of the unique strengths of the Middle-Income Country Training Program has been our ability to design flexible training programs which meet the distinctive needs of the countries involved.

We think this pilot program has been an effective demonstration of the ability of the United States to help a country not only to continue its development but also to turn around the issues of trade and to create a climate of trade.

SOURCES OF FUNDING

Senator COCHRAN. I appreciate very much having the benefit of your comments on that. I wonder if we could assume, in view of the contributions made by the American Soybean Association and the U.S. Feed Grains Council, if funding were terminated by our Government, would the program continue to operate with funds from other sources?

Dr. WALLACE. At this point we have been using funds from other sources for airfare. This year, the countries will pay their airfare to the United States for training. There are no funds for tuition and for expenses of the students. We would have to discontinue the program. There would be insufficient funds.

CLOSING REMARKS

Senator COCHRAN. I appreciate the cooperation of all the witnesses. Mr. Secretary, thank you for being here and helping us with the hearing. I think we have had an excellent review of the budget as it relates and affects the programs under your jurisdiction. It is particularly good to see our friend, Tom Kay, in a different capacity before our committee. We have known him for quite some time. I think he did an excellent job this morning. I am sorry we didn't have more time allocated to this portion of our hearing. With the constraints we are all under, that just was not possible.

SUBMITTED QUESTIONS

Thank you all for being here and for cooperating with our committee. Again, we have some questions for each agency which we will submit in writing and ask for a timely response by each agency.

[The following questions were not asked at the hearing but were submitted for response for the record:]

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

USER FEES

Question: The budget proposes to implement $46.3 million in user fees for services performed by ASCS. For what services will fees be charged? How much of the $46.3 million will require legislative changes and how much can be done administratively?

Answer: Proposed user fees would be charged for services performed by ASCS resulting in a direct benefit to a recipient. These benefits include wool and mohair incentive payments, deficiency payments, diversion payments, peanut and tobacco marketing cards, Grain Reserve farm-stored and warehouse-stored commodity loans, and other commodity loans.

No additional legislative action is required. Administrative authority necessary to revise and implement service fees is provided in Section 4(m) of the CCC Charter Act, as amended, and Section 501 of P.L. 82-137, 65 Stat. 290, as amended, commonly referred to as the Independent Offices Appropriation Act.

DAIRY TERMINATION PROGRAM

Question: What is USDA's estimate of the effect of the milk production termination program on milk production in 1986 and thereafter? Will the program reduce price-support purchases of surplus dairy products? If so, by how much?

Answer: Sign-up data for the Dairy Termination Program indicates that program participants will reduce their marketings about 12.2 billion pounds below their 1985 marketings. CCC purchases are expected to total 11.0 billion pounds milk equivalent in FY 1986, approximately 5.5 billion pounds less than would have been expected without the Dairy Termination Program.

The effect on milk production and CCC purchases in later years will depend on actions of non-program participants remaining in dairying. This was recognized in the Food Security Act of 1985 by including a provision that would permit dairy support prices to be adjusted in 1988, 1989, and 1990, based on estimated projections of CCC purchases.

Question: How does USDA intend to monitor the transfer of dairy cows to ensure compliance with the program requirements?

Answer: Dairy Termination Program participants are required to certify the disposal means of all dairy cattle in which they have an interest. All cattle must be branded with an "X" on the right jaw using either the freeze-branding method or the hot-branding method prior to being removed from the contract unit. The producer must then document, by type of cattle, to whom the dairy cattle were transferred. If there is an intermediate buyer, he must certify the date that those same cattle were resold for either slaughter or export and the person or persons from whom they were purchased. The slaughterer or exporter, in turn, must certify that these cattle were, in fact, either slaughtered or exported.

Our county ASCS office personnel also conduct periodic spot checks to help ensure that participants are complying with the program requirements.

Question: Will the milk sales assessments cover the amount of payments required for program participants? If not, how much CCC funds will be required?

Answer: The assessments on milk marketings are estimated to be about $650 million and will cover about 38 percent of the cost of the Dairy Termination Program. Approximately $1.1 billion in CCC funds would be required to cover the remaining 62 percent.

COMMODITY FUTURES

Question: Earlier this month, there was an article in the Clarion-Ledger quoting the president of the New York Cotton Exchange as he urged farmers to participate in the futures markets and said that the U.S. Department of Agriculture plans to designate 40 high-production counties nationwide for a number of farmers to participate in the futures market with guarantees that the farmer cannot lose money.

Does that come under your jurisdiction? Could you tell us about that program? How are farmers chosen to participate? What kind of guidance is given to the farmers so that the Government doesn't end up paying a lot of money for bad speculation?

Answer: The Food Security Act of 1985 mandates a number of studies to be undertaken by the U.S. Department of Agriculture. One of these studies would require the Secretary of Agriculture to conduct a pilot program with respect to the crops of wheat, feed grains, and cotton in at least 40 counties that produce major agricultural commodities that are traded in commodity futures and options markets. Producers selected for participation in the pilot program would be given extensive training in futures and options trading and would be assured, through the use of Commodity Credit Corporation funds, that the net return received for the commodities under the program is no less than the price support loan level for that commodity in the particular county where produced.

A second study would require a determination of the manner in which agricultural commodity options markets might be used by producers of agricultural commodities traded on these markets, to provide them with price stability and income protection. The Federal budgetary impact of undertaking such activities would be assessed in relation to the cost of exixting price support programs.

The Secretary has designated the Economic Research Service as the lead agency for these studies. Our agency expects to be actively involved in the pilot program. Some preliminary meetings have already been held to explore the requirements and to outline the details of the study. In addition to the Economic Research Service and the Agricultural Stabilization and Conservation Service, the Extension Service and the Office of Budget and Program Analysis will be involved in the design of the study.

To date, no funds have been appropriated for these studies. Without these funds, it is highly unlikely that all of the mandated studies can be undertaken.

WHOLE-HERD DAIRY BUYOUT

Question: Mr. Secretary, what are the roles of the various agencies under your jurisdiction with regard to the whole-herd dairy buy-out program?

Answer: The whole-herd buyout program will be administered under the general supervision of the Adminstrator of the Agricultural Stabilization and Conservation Service with the involvement of the Agricultural Marketing Service and the Foreign Agricultural Service.

The Commodity Credit Corporation -- CCC -- will enter into contracts with producers who agree to sell their dairy cattle for slaughter or export and terminate milk production for a 5-year period. CCC will also finance red meat purchases to offset the increased slaughter of dairy cattle under the buy-out program. Of the 400 million pounds of red meat to be purchased, 200 million pounds will be donated to domestic non-profit charitable institutions for the needy, to non-profit summer camps for children and to other child nutrition programs. The remaining 200 million pounds will be exported for use in U.S. military commissaries abroad and for sale, as reflected in USDA's recent announcement to tender for sale high-quality beef to the European Community. Domestic uses and exports of the purchased red meat will be handled by the Agricultural Marketing Service and the Foreign Agricultural Service, respectively. The Agricultural Marketing Service will also be responsible for administering the collection of the dairy assessments mandated by the Food Security Act of 1985 and the Food Security Improvements Act of 1986, which will be used to partially offset the cost of the Dairy Termination Program.

CCC WHEAT STOCKS

Question: After three successive years of wheat production control programs (crop years 1983, 1984, and 1985) projected to cost more than 7.5 billion dollars (includes deficiency payments, diversion payments, disaster payments, and payment-in-kind), the Department has failed to achieve what it considers to be an acceptable wheat carryover level. Why have the wheat programs been ineffective in reducing carryover levels and strengthening prices?

Answer: Wheat carryover levels remain high for several reasons -- primarily disappointing export levels since 1982, with exports falling for four consecutive years. Uncompetitive U.S. prices resulting from high loan rates were made more uncompetitive by the high value of the dollar. The decline in the U.S. export market share occurred at a time when world wheat trade overall was falling, making it difficult to reduce carryover levels and strengthen prices.

With the lowering of the U.S. loan rate under the Food Security Act of 1985, the expected decline in the value of the dollar, and an anticipated gradual increase in world trade, we are optimistic that U.S. exports can regain their competitiveness. Increased competitiveness, coupled with judicial use of acreage control programs, is expected to bring about lower stock levels, increased farm prices, higher farm income, and reduced budgetary costs.

Question: To what extent were the programs designed to achieve an acceptable carryover level?

Answer: The wheat production control programs, in effect since 1982, were designed to achieve an acceptable balance between stock levels and producers' incomes. To reduce carryover levels further would require additional acreage to be idled. While prices would rise, increasing a producer's income, this increase could be offset by a reduction in income due to the substantial cutback in acreage. Therefore, the acreage reduction levels used were judged to provide reasonable returns to program participants, without requiring them to idle unnecessarily large acreage.

Question: What are the cost/benefit ratios of the 1983, 1984, and 1985 wheat production control programs? How do these compare to other major crops such as feed grains, cotton, and rice?

Answer: The participation rates in the acreage control programs most clearly reflect the cost/benefit ratios of the annual programs. Although other factors influence participation, the following table can be used to judge the relative cost/benefit ratios for each crop.

Program Participation

	1982	1983	1984	1985
	-------% of base participating-----			
Wheat	48	78	60	73
Corn	29	71	54	69
Rice	78	99	85	89
Cotton	78	93	70	82

Question: What type of a production control program would be required to achieve an acceptable wheat carryover level and strengthen wheat prices? Specifically, what percentage of overall wheat acreage would be required to be removed from production and what specific percentage of acreage would each producer be required to remove from production?

Answer: To achieve an acceptable wheat carryover level in one year, a mandatory acreage reduction program would likely require a producer to reduce his acreage by up to one-half of his current plantings. Prices would rise, increasing a producer's income, but this may be offset by a reduction in income due to the substantial cutback in acreage.

The U.S. Department of Agriculture, as mandated by the Food Security Act of 1985, will conduct a wheat poll by July 1986 asking producers if they want mandatory controls similar to the one mentioned above.

Question: What would the aforementioned program cost?

Answer: Program cost information will be available after the wheat poll is conducted.

CONSERVATION RESERVE PROGRAM

Question: Early in March, USDA held its first signup for the Conservation Reserve Program. I understand the results were far short of the 5-million-acre target for this year. USDA has, therefore, scheduled a second signup period beginning May 5, 1986. Would you briefly outline for the Committee why the response to the program was so disappointing?

Answer: Farmers placed bids on 4.8 million acres which was close to the goal of 5 million acres. However, we were not able to accept the acres needed because of the unreasonably high bids. At the time of signup, farmers were also giving consideration to the commodity program signup and the Dairy Termination program. This may have affected their adequate consideration of the Conservation Reserve.

Question: Do you still expect to meet the targets for 1986?

Answer: The Department plans to accept reasonable bids on the maximum acreage possible. Our goal is still 5 million acres for 1986.

Question: Have you made any program changes for the second signup?

Answer: We are allowing farmers the choice of either destroying a crop on designated acres and receiving a CRP payment for 1986 or harvesting the 1986 crop and beginning the CRP contract in 1987.

EMERGENCY CONSERVATION PROGRAM

Question: What is the status of the Emergency Conservation Program? How much money is in that account? What have you been spending it on?

Answer: Funds for the Emergency Conservation Program have been allocated to States where natural disasters have occurred. The current balance in the ECP account is zero and requests on hand from western States, totaling approximately $4 million, cannot be funded. The following table reflects how ECP funds have been used in fiscal year 1986 by type of disaster:

FY 1986 ECP Allocations

State	Flood	Hurricane	Tornado	Other	Total
Alabama	--	$432,767	--	--	$432,767
California	$885,026	--	--	$150,000 1/	1,035,026
Georgia	--	169,544	--	--	169,544
Hawaii	--	--	--	110,000 2/	110,000
Idaho	15,990	--	--	--	15,990
Indiana	--	--	$20,161	--	20,161
Maine	15,000	--	--	--	15,000
Maryland	30,000	--	--	--	30,000
Michigan	300,000	--	--	--	300,000
Nevada	200,000	--	--	--	200,000
New Jersey	--	8,000	--	--	8,000
New Mexico	179,973	--	--	--	179,973
Oregon	32,000	--	--	--	32,000
Pennsylvania	--	68,000	--	--	68,000
Utah	100,000	--	--	--	100,000
Virginia	1,500,000	--	--	--	1,500,000
W. Virginia	4,000,000	--	--	--	4,000,000
TOTAL	$7,257,989	$678,311	$20,161	$260,000	$8,216,461

1/ Wildfires.
2/ High winds.

QUESTIONS SUBMITTED BY SENATOR KASTEN

FARM BILL PROVISIONS

Question: There is some confusion about the sodbuster and swampbuster provisions of the farm bill. Regulations have not been issued yet, and I've been made aware of some conflicting signals being sent out by ASCS on whether farmers are subject to sodbuster and swampbuster sanctions until they are issued. Could you clarify this? When do you expect regulations to be issued, and what must farmers do or not do to comply with the law until then?

Answer: We regret any confusion or misunderstanding about the sodbuster and swampbuster provisions of the Farm Bill that might have resulted from interpretation of initial instructions issued from the national office. We have since issued Notice CP-321, which clarifies earlier instructions. We will provide the Committee a copy of this notice.

We are in the process of developing regulations on these provisions and anticipate publication in the Federal Register between June 2 and June 23.

Question: I am concerned by reports that the Department is being asked to consider permitting the conversion of wetlands to cropland under a procedure known as "mitigation." This is, a farmer could convert a wetland on one part of his property provided he agrees to create a new wetland on another part of his property.

It appears to me that this idea, besides being unworkable due to difficulties of implementation and enforcement, represents an attempt to evade both the letter and the intent of the wetlands conservation, or "Swampbuster" provisions of the farm bill.

Is the Department now considering this idea? If so, what statutory language would authorize this practice?

Answer: The Soil Conservation Service (SCS), as well as ASCS, are in the process of developing regulations for the implementation of the sodbuster and swampbuster provisions. "Mitigation," if approved by the Department, will be the responsibility of SCS.

CONSERVATION RESERVE PROGRAM

Question: What steps is the Department considering to assist in publicizing the May signup for the Conservation Reserve? Are plans being made for public service announcements on local radio stations? Are steps being taken to assure coordination between SCS, whose personnel are trained to be knowledgeable about soil conservation, and the Extension Service, most of whose personnel are decidedly not knowledgeable in this area?

Answer: Public service announcements on radio and, where possible, television will be used, as well as news articles, news letters and other written advertisements. We feel coordination and cooperation among USDA agencies has been very good and will continue for Conservation Reserve. The Extension Service will continue to be used as the information arm of the Department.

Question: Please clarify the respective roles of ASCS, SCS, and OMB in developing criteria on which to base the acceptance of conservation reserve bids. I'm concerned that an undue regard for purely budgetary considerations could lead to a bias toward accepting bids to put into the reserve more productive acres and base acres for program crops, at the expense of the most erosive acres.

Answer: SCS and OMB did not participate in the analysis of the bids received during the March signup. ASCS made the analysis and determinations. OMB was furnished information on the recommended levels and they did not suggest changes. USDA approved the ASCS recommendations.

Question: I want to encourage the Department to maintain the present erodibility criteria for determining eligibility for the reserve at least through this year. I believe it is necessary to give the program and the current criteria, which targets the most erodible land, a fair chance before enlarging the pool of eligible land. Can the Department give assurances that the present criteria will continue to be used at least until we have had a chance to properly evaluate how appropriate they are?

Answer: We plan to maintain the present erodibility criteria until sufficient acreage has been obtained to justify consideration of enlarging the pool of eligible acreage.

Question: The fact that funds for conservation reserve contracts which provide for rental payments beginning in the Fall of 1987 must be made available through the appropriations process is a source of some concern. I am assuming that contracts will be signed on the assumption that the money to make the rental payments will be available. Will farmers signing contracts to place acreage in the reserve be advised in some way that their rental payments are subject to congressional appropriation?

Answer: CRP regulations state that program payments are subject to the availability of funds. The provisions of the Food Security Act of 1985, which require CCC to enter into 10-year contracts with farmers in 1986 and 1987 but require appropriated funds beginning in FY 1988, raise questions about the availability of funding for the 10-year contracts.

RED MEAT PURCHASES

Question: Mr. Amstutz, I would like your assessment of the impact of the buy-out on red meat markets. How big has the impact been? Also, hasn't most of the damage already been done?

Answer: The Commodity Credit Corporation took all possible steps to minimize the impact of the Dairy Termination Program on red meat markets. While beef producers who sold on a down market were obviously affected, we believe that many factors, including market speculation, were important in the price drop during the first week in April and that this drop was a temporary one. We also believe that the major impact on beef markets has already occurred and that our actions to purchase the 400 million pounds of red meat and our export initiatives will help moderate the impact on beef prices.

Question: Can you estimate the impact of the buy-out on pork and lamb prices?

Answer: We believe that the impact on pork and lamb prices has been minimal.

Question: I'd like to take this opportunity to express my general approval of the decision the Department has made to require the slaughter of most of the bought-out dairy cows in the first disposal period. While I sympathize with the difficulties the program is causing for the red meat industry, I believe it is crucial for the dairy industry that we move to reduce supply as early as possible. I hope the Department will see fit to stand by its current policy in this area.

Should legal action now force the Department into a change in policy, would not this change require the Government to alter many buy-out contracts? Would farmers be entitled to financial compensation if their contracts had to be altered?

Answer: Until a decision is rendered in the court case in Lubbock, Texas, we feel it would be premature to speculate on possible Department actions.

QUESTIONS SUBMITTED BY SENATOR SPECTER

CCC TRANSFERS TO APHIS

Question: In the past, the Commodity Credit Corporation has transferred funds to APHIS to control such animal and plant disease emergencies as avian influenza, citrus canker, grasshoppers, and gypsy moths. These diseases are devastating to producers and growers. Why is this program proposed for termination?

Answer: The curtailment in the use of CCC funds for APHIS emergencies can be attributed in large part to the current Federal priority of deficit reduction, as exemplified by the Gramm-Rudman-Hollings legislation. The Commodity Credit Corporation is facing budgetary pressures similar to those currently being experienced by APHIS and other non-exempt Federal agencies.

Question: Is there funding elsewhere in USDA for emergency disease outbreaks such as avian influenza or pseudorabies?

Answer: The Secretary continues to have authority to redirect appropriated funds from ongoing programs to meet emergency needs should the situation warrant.

COUNTY OFFICE CONSOLIDATIONS

Question. Which, if any, ASCS county offices are planned to be consolidated?

Answer. As part of OMB's management initiatives and the Department's streamlining efforts, ASCS anticipates saving $1.4 million in FY 1987 as the result of consolidating county offices. These savings will be at both the County and State office level. At this time, ASCS has not developed specific plans concerning how and where county offices will be consolidated. However, we do expect that any consolidation of ASCS offices will be a part of a total Departmental plan which would probably include co-location of various USDA agencies.

Currently, as part of normal ongoing operations, ASCS county offices are occasionally consolidated with other ASCS offices in order to provide more efficient and economical service and more effective management in sparsely populated rural areas. However, this normal ASCS State and County Committee Management process differs from the proposal included in the Budget for FY 1987.

COUNTY OFFICE USER FEES

Question: The budget proposes that local county offices charge user fees for approximately 13 percent of office operations costs. Please describe these fees, who will pay them, how much farmers will have to pay, and how these fees will be collected.

Answer: Proposed user fees would recover county office personnel salary and travel costs directly associated with providing a direct benefit to a recipient. These benefits include wool and mohair incentive payments, deficiency payments, diversion payments, peanut and tobacco marketing cards, grain reserve farm-stored and warehouse-stored commodity loans, and other commodity loans.

Costs relating to administrative and program activity not directly benefiting a producer would not be recovered; for example, no fees will be charged for program signup, general administration costs, yield and base establishment work, community and county committee elections, referenda, aerial photography work, and office overhead. Futhermore, we will exempt conservation program payments, which are already on a cost-share basis.

The recipient or authorized representative receiving the direct benefit will be responsible for paying the service fee. At the county level, the service fee will be offset from loan proceeds or program payments. Fees for marketing cards will be paid by check or cash and deposited to CCC's account. Producers not wanting the fee offset from payment proceeds may pay the service fee separately.

A tentative schedule of proposed service fees per item is provided for the record, but extensive rulemaking must preceed any implementation of the new or expanded services fees.

[The information follows:]

ASCS PROPOSED SERVICE FEE SCHEDULE

ITEM	CURRENT	PROPOSED
Farm-Stored Commodity Loans (except Sugar) or Special Producer Storage Loans	$10.00/loan, plus $1.00/bin over one in which loan collateral is stored	a/ $45.00/loan or one percent of total loan amount after Gramm-Rudman reductions, whichever is smaller, but not less than $10.00/loan minimun fee
Warehouse-Stored Commodity Loans (except Cotton) or Special Producer Storage Loans	$6.00/loan, plus $1.00 for each warehouse receipt over one	b/ $25.00/loan or one percent of total loan amount after Gramm-Rudman reductions, whichever is smaller, but not less than $6.00/loan minimum fee
Cotton Warehouse Loans prepared by County Office Personnel	$1.50/loan, plus $.25 for each bale of cotton loan collateral	b/ $8.75/loan, plus $1.25/bale or one percent of total loan amount after Gramm-Rudman reductions, whichever is smaller, but not less than $10.00/loan minimum fee
Cotton Warehouse Loans prepared by Other	$1.50/loan, plus $.25 for each bale of cotton loan collateral	b/ $8.00/loan, plus $.60/bale or one percent of total loan amount after Gramm-Rudman reductions, whichever is smaller, but not less than $6.00/loan minimum fee
Sugar Processor Loans	$10.00/loan	c/ $272.00/loan
Grain Reserve Farm-Stored Loans	none	d/ $62.00/loan or one percent of total loan amount, whichever is smaller, but not less than $15.00/loan minimum fee
Grain Reserve Warehouse-Stored Loans	none	$34.00/loan or one percent of total loan amount, whichever is smaller, but not less than $10.00/loan minimum fee
Wool and Mohair Payments	none	$12.50/check or three percent of producer's total gross payment/check issued, whichever is smaller, but not less than $3.00/check minimum fee
Deficiency Payments	none	$3.00/commodity reflected on advance and final payment checks and certificates
Diversion Payments	none	$4.00/commodity reflected on advance payment checks and certificates and $4.50/commodity reflected on final payment checks and certificates
Peanut Marketing Card	none	$5.50/card issued
Tobacco Marketing Card	none -	$5.00/Flue-cured tobacco card issued and $5.00/card issued for all other tobacco varieties

a/ In addition to these fees, locally determined charges will be assessed for measurement services, lien searches, and filing financing statements (lien filings).

b/ In addition to these fees, locally determined charges will be assessed for performing lien searches.

c/ In addition to these fees, locally determined charges will be assessed for performing lien searches and filing financing statements (lien filings).

d/ In addition to these fees, locally determined charges will be assessed for filing financing statement extensions.

NOTE: National estimates of these additional charges are $19 for measurement services, $7 for lien searches and $3 for filing financing statements (lien filings).

ASCS/BU/AEB/4-18-86/#0439b

AGRICULTURAL CONSERVATION PROGRAM

Question: The Agricultural Conservation Program has been proposed for elimination. This program is a joint federal farmer effort to restore and protect land and water resources and is very important to Pennsylvania. What is the justification for elimination of this program?

Answer: The ACP is proposed for termination on the basis that available Federal financial assistance should be concentrated on the longer term conversion of highly erodible cropland that meets strict criteria for entry into the Conservation Reserve Program. The proposed elimination of ACP is consistent with the Administration's objective of shifting the responsibility for financing the costs of conservation measures back to State, local, and private sources and focusing Federal assistance on the most seriously eroding areas under the Conservation Reserve Program.

FORESTRY INCENTIVES PROGRAM

Question: The budget proposes funding elimination of the very successful Forestry Incentives Program. While some cropland may be converted to forestry under the Conservation Reserve Program, this program will address only people producing surplus crops. What assistance will be available for people in Pennsylvania who are not growing surplus crops?

Answer: Any owner or operator of highly erodible cropland, where the annual soil loss is 3 times the acceptable level, is eligible to participate in the Conservation Reserve Program. It is true that the CRP will help adjust the production of some agricultural commodities currently in surplus. However, production adjustment is not the primary purpose of CRP since lands eligible for the program are generally marginal in productivity. Financial and technical assistance will be available through the CRP to plant trees on up to 12 percent of the acreage accepted into the CRP each year. If the Forestry Incentives Program is terminated, cost-sharing assistance will not be available to plant trees on cropland eroding at less than 3T.

QUESTIONS SUBMITTED BY SENATOR SASSER

CONSERVATION RESERVE PROGRAM

Question: Mr. Hertz, when we passed the Farm Bill last December, most of us had high hopes for what the conservation reserve could accomplish. I'm sure I don't need to tell you how serious a problem soil erosion is in Tennessee, which is why I'm somewhat worried about the low signup thus far for the conservation reserve. Could you explain to us why the Department of Agriculture has so far only accepted bids on 838,356 acres for the Conservation Reserve when the farm bill called for 5 million acres to be removed in FY 1986?

Answer: The Department felt that the remaining bids were high when compared to the criteria used in determining maximum levels for the bidding pools. We also have high hopes for the Conservation Reserve and anticipate that now that farmers have had more time to consider the program, we will get more participation and a greater proportion of realistic bids during the second signup, which starts May 5, 1986. Our goal is still to enroll the 5 million acres called for in the Farm Bill.

Question: Could you please tell us what the Department's plans are for the second signup period? Do you intend to accept bids on the remaining 4 million plus acres that would bring us up to the 5 million for 1986? (If not, then) will you at least be likely to sign up the 3.75 million acres required by the farm bill as a minimum for 1986? (If not, then) what amount of acreage can we expect the Department to enroll in the conservation reserve in 1986?

Answer: The Department plans to accept reasonable bids on the maximum acreage possible. Our goal is still 5 million acres for 1986.

Question: Can you tell us how many acres the Department plans to enroll in the reserve by the end of FY 87? (If 15 million, then) is that an unrealistic expectation given the low signup results so far? What changes are you likely to make in the process to increase the acceptance rate for bids?

Answer: The Department's goal is to obtain 15 million acres by the end of 1987. Our ability to accomplish this goal will depend on the amount of acres bid and whether bids are within a realistic range. We are giving consideration to additional criteria in determining acceptable bid levels in order to be as equitable as possible.

Question: Do you have an estimate of the cost of the reserve in FY 86? What acreage figure is that based on?

Answer: The estimated cost of the CRP in FY 1986 is $190 million. This estimate is based on acceptance of 5 million acres into the reserve for the 1986 crop year, and it assumes that the 1986 rental payments will begin in FY 1987, which starts October 1, 1986.

Question: I understand that OMB sent guidelines to the Department of Agriculture outlining acceptable dollar limits on bids. Is this true? (If so, then) does OMB have the authority to issue guidelines such as these? What dollar value per acre is acceptable to OMB? Does this explain why the Department's acceptance rate for bids is so low?

Answer: OMB did not provide guidelines on acceptable bid levels. These were determined within USDA.

Question: Do you really believe that of the bids submitted already that over 80 percent of them were unrealistically high? Does that suggest that the Department's compensation figures are low?

Answer: Nationwide, based on the intent of the program, which is to remove the most highly erodible and least productive land from production, we believe a large percentage of bids was unrealistically high. If adjustments of acceptable bid levels are warranted for some areas of the country, they will be made after the May signup.

Question: Does the Department plan any accommodations for those farmers who had very low bids accepted relative to other bids accepted in their county? Will a farmer be able to resubmit a bid?

Answer: No accommodations are planned for farmers whose bids are accepted in previous signups. Farmers may not resubmit a bid on land already accepted. Farmers may submit new bids on other eligible land on the farm.

AGRICULTURAL CONSERVATION PROGRAM

Question: I see from your budget request that the Agricultural Conservation Program has again been zero funded. I understand that the Department's priority this year in soil and water conservation is the Conservation Reserve. Nevertheless, considering the low signup for the reserve so far and the newness of the program, it seems unwise to not fund as successful a cost-sharing program as the Agricultural Conservation Program. Can you give us the justification for its elimination?

Answer: The ACP is proposed for termination on the basis that available Federal financial assistance should be concentrated on the longer term conversion of highly erodible cropland that meets strict criteria for entry into the Conservation Reserve Program. This proposal is consistent with the Administration's objective of shifting responsibility for ACP-type conservation measures to State, local, and private sources.

ETHANOL PRODUCTION

Question: I would like to discuss ethanol production for a moment. As you may know, Tennessee is an ethanol-producing State, and the ethanol industry provides an important market for corn in the State. However, as ethanol prices have dropped as rapidly as gas prices since December, the ethanol industry could face financial difficulties should prices not stabilize soon. In the 1985 Farm Bill, there is the authority for the Commodity Credit Corporation to make CCC stocks available, at reduced cost or no cost, to encourage the purchase of such commodities for the production of liquid fuels. Can you tell me whether the Secretary has contemplated using this authority to make available CCC corn stocks to ethanol plants in a discount program?

Answer: The Secretary has received a number of proposals from the ethanol industry regarding the use of the discretionary authority under Section 1024 of the Food Security Act of 1985 to make CCC-owned stocks available for ethanol production. These proposals are now under consideration.

Question: Have any estimates been made of the cost of implementing such a program?

Answer: I understand that the USDA Office of Energy, which is coordinating the consideration of the various proposals, has made some preliminary estimates of the costs involved in implementing a discount program.

Question: Given that ethanol plants provide a sizeable market for corn, and in fact, are responsible for higher corn prices to farmers than what would exist without them, and that we could reduce CCC stocks by implementing such a program, it seems to me that the Department should seriously consider implementing such a program, provided that the Secretary could ensure that the use of CCC stocks shall encourage increased use of stocks and avoid displacing usual marketings of grains. I hope you will keep me informed of the Department's actions in this regard.

Answer: The Department will be pleased to keep you informed about this matter.

JAW BRANDING OF DAIRY CATTLE

Question: On one last matter, Mr. Hertz, I have been receiving numerous calls from constituents lately regarding the use of jaw branding on cows destined for slaughter under the dairy whole herd buy-out program. I see from a USDA news release dated April 18, 1986, that the Department has amended its instructions on branding to allow farmers to use freeze branding if they choose. Does this mean that the Department has determined that freeze branding is a more humane method of identification for cattle? If so, why is freeze branding not the required method of identification?

Answer: As we mentioned earlier, branding results in some pain to the animal, regardless of whether it is freeze branding or hot branding. We suggest that a veterinarian be consulted to desensitize the area to be branded.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

DAIRY TERMINATION PROGRAM

Question: Why is ASCS implementing the dairy whole herd buy-out in clear disregard of the intent of the Farm Bill by carrying out the majority of slaughtering in the first disposal period?

Answer: The Food Security Act of 1985 requires that more cattle be slaughtered in the first and third periods, from April through August 1986 and from March through August 1987, respectively, than for any other months of the Dairy Termination Program. Contracts were accepted on the lowest bid basis, and approximately two-thirds of the bids came in the first period. We feel that we have fully met the requirements of the law for the livestock slaughter.

Question: How do you propose to assist cattlemen who cannot take advantage of the conservation reserve program now that significant cuts are proposed for their acreage reduction program which has in the past provided compensation for reduction of grazing lands?

Answer: The purpose of the Conservation Reserve Program (CRP) is to take highly erodible land out of production. Therefore, it is reasonable to reduce the crop acreage bases on farms participating in the CRP as required by Section 1236 of the Food Security Act of 1985. If the grazing lands are, in fact, cropland, they may be designated as a program crop for deficiency payment purposes to the extent of the 50/92 provisions. If the grazing lands are not cropland, producers should not have received compensation for the lands under previous acreage reduction programs.

Question: How does the agency propose to deal with dairy farmers who have qualified to participate in the whole herd buy-out program and who also have a problem with heptachlor contamination?

Answer: Dairy farmers participating in the Dairy Termination Program whose herds are contaminated with heptachlor will be subject to that program's requirement for disposal of all female dairy animals by the end of the disposal period applying to their contract. Until such disposal occurs, any milk production they are not allowed to market because of heptachlor residue exceeding the tolerance will be eligible for indemnity under the Dairy Indemnity Program to the extent funds are made available. There is no provision under either program to reimburse the farmers for the lost slaughter value of the dairy animals if heptachlor residues in the carcasses exceed the tolerance for sale as food.

HEAVY WORKLOAD IN COUNTY OFFICES

Question: A serious need exists in my State for a policy which would allow light workload county offices to detail staff to heavy workload areas during those busy times. Will your agency consider implementing such a policy? Do you have any other means of avoiding the serious problems of holding up advance deficiency and diversion payments?

Answer: Our Agency currently has such a policy. State offices may approve work details of permanent county office employees from county to county to accomplish workload requirements. However, with enactment of the Food Security Act of 1985 and its several revisions, most county offices have experienced almost impossible workload demands to meet established program deadline signup dates. In addition, a 4.3 percent Gramm-Rudman reduction in county office administrative allocations limits the amount of travel and number of temporary employees hired. All this has caused delays in producer services. County offices are issuing payments to producers as soon as possible so as to avoid financial hardships on farmers and producers.

FOREIGN AGRICULTURAL SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

EXPORT MARKET DEVELOPMENT COOPERATIVE PROGRAM

The objectives of the Export Market Development Cooperator program are to develop, maintain, or minimize the rate of loss of U.S. agricultural export markets. FAS does this by contracting with private sector, non-profit trade organizations to carry out market development activities, on a shared costs basis; FAS pays most direct program costs while the cooperator pays most indirect costs, primarily time, goods and services.

Although the appropriation for the export market development program is one-year money, FAS effectively converts the appropriation into 5-year money through an OMB-approved process known as "forward funding." Under this process, FAS formally contracts with the cooperators to provide funding and this contract becomes the obligating document. The cooperator then has five years to liquidate the obligation.

Question: Why does FAS use "forward funding?"

Answer: The practice of forward funding was instituted at the inception of the program because it was and still is considered a necessary ingredient to forming and maintaining strong U.S. cooperator groups. In addition, the government's up-front financial commitment has in turn been utilized by cooperators to secure matching private sector funding and to gain the support and commitment of foreign individuals, organizations, and governments that, to a large degree, affect our success in developing markets.

Question: Have the cooperators been spending all of the money obligated to them? Do you feel that these funds are well spent? Do you think cooperators enhance market development?

Answer: FAS obligates funds to individual cooperators through their project agreements, the basic contractual document between FAS and each cooperator. Expenditure authority, on the other hand, is provided through annual marketing plans. Cooperators would not normally be authorized in their marketing plans to expend all the funds provided in their project agreements because the latter are funded by FAS on an alternating year basis. Moreover, the marketing plan budget level approved for a cooperator in a given year is determined by its own request for budget authority, which may vary from year to year depending in some cases on availability of product, and its own resources and staff, as well as its expenditure rate the previous year. Against annual expenditure authorizations--that is, approved marketing plan budgets--cooperator expenditure rates during 1981 to 1985 averaged 79 percent with annual averages ranging from 75 to 87 percent. Individual cooperator average expenditure rates over the last three fiscal years range from 100 to 48 percent. Cooperator expenditure rates will be higher in Fiscal Year 1986 because of the declining purchasing power of the dollar overseas, where most cooperator expenditures are incurred.

We are confident that the foreign market development program has contributed significantly to the achievement of record exports in the best of times and to the mitigation of export losses in the worst of times. We are convinced that our unique Government/industry approach is the most effective and economic means of developing export markets for U.S. agriculture and that this program deserves to be continued. We are also committed to reducing the current budget deficit, however, by shifting more of the costs of its operation to the private sector. We are hopeful that the agricultural sector's confidence in the effectiveness of the program and its successful track record will generate the additional private industry and producer resources needed to offset the the necessary reduction in federal outlays.

Question: What part of each year's appropriation is used or obligated for cooperator contracts?

Answer: Actual FY 1985 and estimated FY 1986 cooperator program obligations total $36 million and $32.6 million respectively. In the FY 1987 budget, $22 million is requested for the cooperator program.

Question: What is the amount of FAS' unliquidated balance? Under normal conditions, what should this amount be?

Answer: At the beginning of FY 1986, the unliquidated balance stood at $51.6 million. Historically, the unliquidated balance has equated to approximately one and one-half to two times the annual level of cooperator program budget authority. However, as a result of Gramm-Rudman-Hollings reductions and the sharp drop in the value of the dollar, cooperator unliquidated balances are projected to fall to approximately $42 million by the end of this year, 1.3 times the FY 1986 budget authority.

Question: Why has FAS allowed this unliquidated balance to grow to its present level?

Answer: The growth in unliquidated balances is largely due to the growth in program funding. Over the past five years, funding for the cooperator program has increased by approximately 58 percent from $22.8 million in FY 1981 to $36 million in FY 1985. Correspondingly, the unliquidated balance grew by approximately the same amount because FAS has historically provided cooperators with forward funding equal to one and one-half to two times cooperator program budget authority. Additionally, the strength of the dollar during this period caused the rate of spending to lag behind the rapid growth in the program budget.

Question: What plans does FAS have to reducing the unliquidated balance? To what level does FAS plan to reduce this balance and what is your timetable?

Answer: As a result of Gramm-Rudman-Hollings reductions in FY 1986, the reductions proposed in FY 1987, as well as the sharp decline in the dollar, we expect that over the next three years, cooperator unliquidated balances will decline by 40 percent to $23 million, about the same level as FY 1979.

Question: What would be the effects of reducing program funding for fiscal year 1987 as a means of reducing the unliquidated balance?

Answer: The unliquidated balance represents future program commitments. The size of that commitment is a function of the rate of spending and the level of new program funding. A reduction in new program funding will reduce the size of the unliquidated balance and thus the size of future program commitments. Therefore, a reduction in FY 1987 program funding will result in a reduction in the program base beginning in FY 1988. To maintain the current program level in FY 1988, cooperators will have to seek additional private sector funds. To the extent that this does not occur, cooperators will have to scale back program operations accordingly.

Question: For the cooperator program, how will the proposed budget reduction for 1987 and spending ceiling established by the sequester for 1986 affect market development and expansion, especially for new markets in countries with high long-term growth potential? (With the budget reduction of $12 million for 1987 and the spending ceiling for 1986, cooperators will effectively receive cuts of about 50 percent.)

Answer: In addition to cooperator expenses incurred and payable in Fiscal Year 1987, FAS will also be obligated to pay expenses incurred by non-cooperator projects in Fiscal Year 1986 which are also payable in Fiscal Year 1987. FAS has therefore advised cooperators to prepare their Fiscal Year 1987 marketing plans assuming availability of only 50 percent of their respective Fiscal Year 1986 budget levels. This presumes Congressional approval of the President's budget as submitted.

The extent to which cooperator programs are adversely affected by the proposed budget reduction and/or sequestration will depend on the ability and willingness of private industry to offset the loss of Federal funds with resources of their own. If no additional private funding is forthcoming, cooperators will have to reduce the number and scope of current activities. Long term projects which require multi-year fund commitments and more expensive technically-oriented activities may have to be abandoned in favor of less costly trade servicing activities. Limited resources may be refocused on maintenance activities in traditional markets rather than more capital intensive expansion activities in new market areas where the returns are less certain and immediate. Some FAS-funded cooperator foreign office staff cutbacks and closings may also be necessary.

Question: Will these changes require the closing of foreign cooperator offices? If yes, how many and where?

Answer: The type and extent of cutbacks in the cooperator program will depend on the funding level ultimately approved for the program by Congress, the extent to which funds are subsequently sequestered pursuant to Gramm-Rudman-Hollings and the extent to which the private sector is willing and able to increase their contributions to the program to offset the loss of Federal funds. Cooperators are now in the process of preparing their Fiscal Year

1987 marketing plans which are due in FAS on or about July 15. At that time FAS will review with cooperators their proposals to pare or restructure activities to accommodate anticipated reduced funding availability. We won't know until then whether, where and to what degree office closings or staff reductions will be required.

Question: What will be the cost to FAS of office closings? For example are there leases to purchase and employee benefits to pay?

Answer: It is impossible to predict the cost of potential office closings attributable to the proposed budget reduction until we have reviewed those options with each of the affected cooperators. However, there would certainly be costs inherent in such actions including no doubt the rent buyouts and severance payments to foreign national employees to which you refer, as well as the cost of returning to the United States any U.S. citizen employees and their dependents. Although we cannot yet estimate the cost of office closings in Fiscal Year 1987, we have estimated the potential cost attributable to closing all project fund supported offices worldwide as approximately $4 million dollars.

Question: Will these costs be counted toward FAS' spending ceiling?

Answer: It is our understanding that these costs would be treated just as any other expense incurred by FAS in terms of a spending ceiling.

Question: How soon will cooperators be required to start making changes in their operations, especially considering the spending ceiling?

Answer: Most cooperators are having to make the decisions now as to how best to absorb the expected budget cuts, in time to submit their proposed Fiscal Year 1987 marketing plans to FAS by July 15. Although FAS has advised cooperators to prepare their Fiscal Year 1987 marketing plans assuming availability of only 50 percent of their respective Fiscal Year 1986 funding levels, implementation of reduced activity levels would be contingent on Congressional action on the program's budget, and in any case not prior to October 1, 1986.

Question: Given the budget reduction included in the fiscal year 1987 proposal, but without a spending ceiling so FAS could use funds from prior appropriation acts or resolutions, how soon would cooperators be required to start making changes?

Answer: In an effort to make the phase down as orderly as possible, cooperators would need to start making changes during Fiscal Year 1987 if the objective is to reach a program level of $18 million by 1989.

U.S. AGRICULTURAL TRADE

U.S. agricultural trade surplus has decreased from $26.6 billion in 1980 to $11.4 billion in 1985. One factor in this reduction is an increase in imports from $17.2 billion in 1980 to $19.8 billion in 1985. This has prompted some sectors to demand restrictive protectionist trade policies that, if adopted, could adversely affect U.S. agricultural exports as a result of retaliatory trade actions by other countries.

Question: What are the major types of agricultural imports and what impact have they had on the U.S. agricultural industry?

Answer: The major types of U.S. agricultural imports are horticultural products, livestock, dairy, meat and poultry products, sugar, and tobacco. About one-third of U.S. agricultural imports are products that are not grown in the United States, such as coffee, cocoa, and bananas. In fact, coffee is our largest farm import. Between 1980 and 1985, U.S. imports of most major agricultural commodities either declined or grew moderately.

U.S. imports of fresh, chilled and frozen beef, veal, mutton and goat meat are subject to import controls under the Meat Import Act of 1964. Under Section 22 of the Agricultural Adjustment Act of 1933, as amended, most dairy products, cotton, peanuts, and refined sugar are under import quotas. Unrefined sugar is under quota under other authority.

Significant import increases in the last five years occurred mainly in bananas, wine, orange juice concentrate, and live swine. In 1984 and 1985, petitions were filed for countervailing duty and anti-dumping action against wine imports which were alleged to be causing injury to U.S. grape growers. The U.S. International Trade Commission made a preliminary determination in both cases that there was no reasonable evidence that imports were causing injury to the domestic industry. The petitioner appealed the decisions and both cases are in the courts. With regard to the orange juice concentrate, the increase in imports can be attributed to four freezes in Florida in the last six seasons. Imports from Brazil supplemented the gap in U.S. supplies. As Florida production recovers, domestic producers have been indicated that they are relying on the current level of duty protection to compete with Brazil. The U.S. tariff is 35 cents per single strength equivalent which amounts to about a 60 percent ad valorem equivalent duty. Following a petition from the U.S. pork industry prompted by an increase in imports of live hogs, a positive U.S. International Trade Commission determination was made in July 1985 for imposition of countervailing duties on live hogs from Canada.

AQUACULTURE INDUSTRIES

Marine fish and fish products are now eligible for export promotion and financial assistance programs administered by USDA. Previously, freshwater and farmed fish only were eligible.

Question: What steps has the Department of Agriculture taken to ensure that credit is available to firms involved with export of marine fish and fish products?

Answer: The Department has alerted the National Marine Fisheries Service of the U.S. Department of Commerce to the operations of the current USDA credit assistance programs and instructed overseas U.S. Agricultural Attaches to direct all inquiries concerning credit for fish, that is freshwater and marine, to the Office of the General Sales Manager within the Foreign Agricultural Service. In addition, all trade contacts with the U.S. marine fish industry, through such occasions as trade shows, trade seminars, and direct telephone inquiries, have and are being informed of USDA credit programs.

Question: What efforts has the Department made to inform marine export firms of their current eligibility for the Foreign Agricultural Service's cooperator program?

Answer: Marine fish and fish products, as defined as saltwater or other than freshwater fish and fish products, are the promotional responsibility of the National Marine Fisheries Service and not under the Foreign Agricultural Service's cooperator program. USDA is committed to supporting a wide range of export activities related to aquaculture which includes services under the FAS cooperator program.

Question: Would the Department be receptive to cooperator programs for marine fish products? What impact would such a program have on personnel and funding resources?

Answer: To conduct promotion of marine fish products through the use of current personnel and resource levels of FAS would, at best, be very difficult and limiting in its ability to achieve credible market development results. It would also be taxing to other cooperator programs now in place due to the resultant wider distribution of monies and FAS support personnel. The Department would be receptive to such marine sector involvement, but only with a commitment for additional funds to cover personnel and program costs which would be sizeable considering the scope of the U.S. marine fish industry.

Question: The Foreign Agricultural Service has discouraged the trout and crawfish industries from seeking separate cooperatorships similar to that of the U.S. catfish industry. Instead, FAS has recommended forming an umbrella cooperator for all aquaculture industries including catfish. Would FAS require a similar umbrella arrangement for the marine fish industries interested in cooperatorships? Would an umbrella arrangement make sense for the diverse types of marine fish?

Answer: Because of the size of the separate industries or species-specific industries within the marine sector, such as salmon and tuna, it would be both illogical and counter-productive to promote these species under a single generic banner such as marine fish and fish products. These industries would need to compete on a one-to-one basis in select foreign markets, for example in Japan against Danish and Norwegian salmon.

Question: What provisions have been made to ensure interagency cooperation between the Department of Agriculture's Foreign Agricultural Service and the Department of Commerce's National Oceanic and Atmospheric Administration in improving marine fishery exports?

Answer: A memorandum of understanding between FAS and the National Marine Fisheries Service under the National Oceanic and Atmospheric Administration is being developed to permit greater cooperation in promoting fishery products. This memorandum of understanding outlines personnel identification, data transfers, and overseas promotional activities eliminating program redundancies.

Question: I understand that the U.S. has a tremendous trade deficit with regard to fish. Why are we promoting exports of fish if this is true?

Answer: The United States consumes large quantities of fish and fish products, some of which are not supplied in sufficient quantities to meet that demand or are not produced at all which results in product imports. These products usually have a high unit value and/or can be produced at cost levels just below U.S. prices; thus value and volume contribute to the current trade deficit in fish and fish products. U.S. exported fish products of note including salmon and herring are produced or caught in quantities which exceed U.S. demand levels. Trade occurs within the fish industry between select countries as in other industries under the basic principles of comparative advantage and supply and demand. Promoting such products as salmon results in further export trade, therein reducing the trade deficit and providing our fish industry the support needed to develop and expand foreign markets for all kinds of fish and fish products.

PUBLIC LAW 480 PROGRAM

AFRICAN FAMINE RELIEF

The United States has responded to the worst famine conditions in Africa resulting from drought conditions and poor agricultural production.

Question: What is the status of the Department's efforts in famine relief for the sub-Saharan countries of Africa?

Answer: The P.L. 480 program level in FY 1985 was slightly above $2 billion, approximately a billion dollars in both Title I and Title II. Over eight and a half million tons were programed in FY 1985, about three million tons to sub-Saharan Africa.

Assistance to Africa was provided primarily under the Title II program. Funds available to Title II activities included a special $384 million supplemental which was available through the end of December. Approximately $130 million of this supplemental was carried into FY 1986. Assistance to Africa was also provided through the Title I program as well as the Section 416 Overseas Donation program. For the first time the Food Security Wheat Reserve was tapped to provide 300,000 tons of wheat through Title II to help in the famine relief effort in Africa.

Question: Some problems were experienced in the transportation and distribution systems for the food aid. To what extent did USDA participate in the resolution of these problems? How much has USDA spent on transportation of food and other aid to Africa?

Answer: One of the major challenges for the international community during the famine crisis in Africa was to initiate measures to overcome logistical constraints blocking the delivery and internal distribution of food aid already pledged. The U.S. moved to solve these constraints by providing transportation funding, technical support, and transportation equipment, such as helicopters, locomotives, trucks and spare parts. In FY 1985, the U.S. Department of Agriculture provided approximately $1 billion of food aid to Africa through the P.L. 480 program, the Section 416 program and the Security Wheat Reserve. This figure is inclusive of freight costs.

EXPORT CREDIT GUARANTEE PROGRAMS

In fiscal year 1985, approximately $2 billion of the $4.5 billion CCC export sales credit guarantee program remained unused. Some critics maintain the underutilization of the program reflects its inflexibility and inability to adapt to changing world market conditions. They urge a total restructuring of the program to make it competitive with export credit programs offered by major U.S. competitors such as the European Community, Canada, and Australia. In an effort to improve U.S. competitiveness abroad, the recently enacted 1985 Food Security Act provides for (1) not less than $5 billion annual in short-term export credit guarantees; (2) not less than $325 million annually in cash or surplus commodities for direct export credits; and (3) at least $500 million annually for intermediate loan guarantees.

Question: Why were the funds for the CCC export sales credit guarantee programs not used in fiscal year 1985?

Answer: The guarantees made available to U.S. exporters under the Export Credit Guarantee Program --GSM-102--were not fully utilized in FY 1985 because U.S. commodities were not price competitive, even with available credit at commercial rates, and because of the debt situation of many countries that might have otherwise used export credit guarantees. Many of these countries exhibited a strong reluctance to take on added debt burdens during this period.

Question: What procedures will be used to assure that the expanded agricultural export credit assistance under the Food Security Act of 1985 is implemented?

Answer: We are currently preparing regulations for an Intermediate Term Credit Guarantee Program, as well as implementing the Export Enhancement Program, and continuing our early programing efforts on the GSM-102, P.L. 480, and Section 416 Programs, as well as Dairy Sales.

Question: Are U.S. exports able to match credit terms offered by competitors from other countries?

Answer: Credit availability does not seem to be a major impediment to exports. Importer income constraints, as well as competitor prices are the main barriers to expanded export market share.

Question: Can examples be provided which show that the CCC export sales credit programs result in a new use of U.S. agricultural commodities in importing countries, and permit expanded consumption of U.S. farm products in the importing country?

Answer: Iraq provides an outstanding example of a market where credit availability has made a large difference in rapidly expanding the U.S. wheat market share. Maintenance of the share of the U.S. wheat market in Egypt has been accomplished as well through the GSM-102 program.

QUESTIONS SUBMITTED BY SENATOR KASTEN

GSM-102 CREDITS TO MEXICO

On the subject of steps the Department has taken to limit the impact of the buyout program, I understand that a decision has been made to make $50 million in GSM-102 credits available to Mexico for livestock purchases.

This should make it possible for the Mexicans to buy up to 20,000 dairy cattle from this country. I understand that Mexico has been offered GSM-102 credits before, but has not used them.

Question: Could you give us some background on this matter? When will we know what the Mexicans intend to do?

Answer: We have been advised by our Agricultural Counselor in Mexico and by various U.S. exporters that a number of export sales of cattle have been made since the dairy termination program was announced and that significant additional sales can be expected shortly. Because of high domestic interest rates in Mexico we do not expect the $50 million GSM-102 Credit Guarantee Program to be a major factor in these private sector sales. Our information is that Mexican importers are paying cash.

We have had preliminary informal discussions with high level officials from the Mexican Ministry of Agriculture concerning their desire to purchase significant numbers of dairy cattle. We have advised these officials that time is of the essence because of the deadlines of the dairy termination program. We hope that the Mexicans will shortly announce their plans for purchasing U.S. dairy cattle. We expect that the GSM-102 line of credit guarantees would be used in this Mexican Government purchase.

DAIRY CATTLE EXPORTS

Question: Can you estimate the total number of dairy cattle likely to be exported during the buyout period relative to the number slaughtered?

Answer: Only a small percentage. If we were to export an additional 100,000 head of cattle, heifers, and calves, it would amount to less than eight percent of the dairy termination program animals.

Question: Also, how many of dairy cattle exports will be government-assisted through GSM-102 credits or other financial assistance programs?

Answer: Export credit will be available where it is feasible and requested to carry out the program.

QUESTIONS SUBMITTED BY SENATOR MATTINGLY

FOREIGN MARKET DEVELOPMENT PROGRAM

Question: Mr. Kay, I realize that attempts to curtail federal spending especially affect those programs which are service oriented since most of their budget is for personnel related (costs). I find it difficult to believe, however, that the Overseas Market Development Programs of FAS are projected to be cut 50 percent. The various cooperators have been told to submit plans to meet this reduction, and will be required to start laying off employees in the very near future. Knowing the success of these projects in leveraging matching funds from private sources, and their proven ability to open and expand markets for American commodities and agricultural products, I want to know why the Department cannot identify some lower-priority programs for reduction or elimination and shift the monies to this one instead?

Answer: The proposed reduction in the Market Development Program is consistent with the Administration's government-wide policy to transfer a larger share of the cost of certain government programs to the segment of the private sector that those programs principally benefit.

EXPORT ENHANCEMENT PROGRAM

Question. Mr. Secretary, to date do you have any indications regarding the impact, if any, the export enhancement program sales are having on foreign traders who engage in deep export subisidies and other predatory trade practices, and do you feel that we will see improvement in the near future?

Answer. We think in short that the Export Enhancement Program has increased in U.S. sales overseas and cut into the sales of our competitors to subsidize their exports. To date, we have announced export initiatives covering nearly ten percent of total agricultural exports this year. Ten commodities have been targeted to 60 different markets. We are providing bonuses on over 30 percent of our wheat exports. The European Community has been our primary target and we have engaged in many of their North African and Middle East markets. After years of steady wheat increase exports, because of EEP, we can already see this year leveling off in Europe wheat sales around the world and possibly even a decline.

QUESTIONS SUBMITTED BY SENATOR SPECTER

FOREIGN MARKET DEVELOPMENT

Question: The 1987 budget proposes a decrease of $12,798,000 for foreign market development. This decrease comes at a time when the Farm Bill promises to increase farm income through increased exports. How will this export increase occur when export development work is being reduced?

Answer: The extent to which the proposed reduction in Federal outlays will adversely affect the conduct of cooperator activities will depend on the ability and willingness of the private sector to offset the loss of Federal funds with resources of their own. We are hopeful that the agricultural sector's confidence in the program and its successful track record will prompt an increased commitment of private industry and producer resources sufficient to maintain the program's momentum. In any case, the U.S. Government's contribution to the cooperator program will still be significant, despite the proposed cut, and adequate to maintain a viable presence for U.S. agricultural exports in the world marketplace.

FOREIGN TRADE BARRIERS

Question: What is being done by your agency to reduce foreign barriers to U.S. agricultural exports?

Answer: This agency is taking a vigorous role in U.S. efforts to reduce foreign barriers to U.S. agricultural exports both on a multilateral and bilateral basis. Our trade policy goals are to obtain a more free and open trading system, to respond aggressively to unfair trading practices of other countries, and to improve the rules for international trade. Within this framework we will enter a number of trade policy negotiations that will be of paramount importance to the U.S. agricultural export effort.

The most comprehensive negotiations will be the new trade round which will be held under the General Agreement on Tariffs and Trade--GATT. We are actively participating in the work of the preparatory committee to determine the scope and objectives of the negotiations. Our broad objectives for agriculture are to negotiate the phase-out and elimination of export subsidies and barriers to market access, to strengthen GATT rules and disciplines, and to make the GATT dispute settlement process more timely and effective. In the more immediate future, we will engage in negotiations regarding the enlargement of the European Community--EC--to include Spain and Portugal. We will make every effort to ensure that the United States is properly compensated for the adoption by Spain and Portugal of more restrictive EC policies and will try to prevent the adoption of new import restrictions.

In terms of other countries, the United States and Canada will begin consultations relating to the formation of a free trade area aimed at eliminating trade barriers. We are heavily involved in negotiations on Mexico's GATT accession which will provide an opportunity to liberalize market access to Mexico. USDA will continue to chair the U.S. delegation in the bilateral market oriented sector specific--MOSS--talks with Japan on forestry products.

We have also taken action bilaterally to break down foreign trade barriers. Our efforts have yielded results. We concluded a settlement to our long standing dispute with the EC over its production subsidies on canned fruit by obtaining an agreement which will lead to the removal of this unfair trade practice. We reached an agreement with Taiwan to reduce its barriers to U.S. exports of beer, wine and tobacco. We successfully negotiated unilateral tariff reductions with Japan under the MOSS forest products talks on solid wood and wood panels in 1987. We will also benefit from Japanese tariff reductions on various agricultural items including wine, walnuts and chicken. In Korea, we negotiated tariff cuts on a range of agricultural items including almonds, grapefruit and cherries.

As part of our general review of trade policy, we will continue to work with the Administration to review legislative proposals to modify and strengthen U.S. trade laws in ways that will help the United States promote free and fair trade. Through these diverse efforts we will continue to do all we can to give efficient U.S. agricultural producers the opportunity to compete on a level playing field in the world market.

P.L. 480

Question: The Budget for P.L. 480 overseas shipments is proposed for a substantial decrease. With huge surpluses of such commodities as butter, nonfat dry milk, and soybeans and with increased food needs worldwide, why are we reducing overseas shipments?

Answer: The dollar value reduction in the P.L. 480 budget is part of the Administration's overall drive to reduce the federal budget deficit. It should be pointed out that actual quantity may remain the same or even increase next year because of declining prices of agricultural commodities programmed. We may have the prospect of increased food aid to P.L. 480 countries at a lower overall cost to the Treasury.

QUESTIONS SUBMITTED BY SENATOR SASSER

EXPORT ENHANCEMENT PROGRAM

Question: Mr. Sims, I see from reading your testimony that under the Export Enhancement Program, 25 initiatives have been announced since the inception of the program. I also noticed that of those 25 initiatives, there were none that involved the export of soybeans. Can you explain to me why that is? Are there no U.S. exporters interested in the export of soybeans under the Export Enhancement Program?

Answer: There are no initiatives which involve the export of soybeans because of the tight criteria which guide implementation of the program.

PROCESSED FOOD PRODUCTS DIVISION

Question: Mr. Kay, I read with interest your statement that FAS intends to establish a processed food products division. Could you tell me a little more about what type of food products you intend to work with in the division? Can you also tell what kind of work this division will do? Will it be market development? Export promotion? What kind of budget do you envision for this division?

Answer: The major focus of the Processed Food Products Division will be consumer and institutional food products. FAS and its cooperators have historically performed market development activities for basic commodities and, to some extent, the products of those basic commodities. The establishment of the Processed Food Products Division is an effort to provide more direct and intensive support to U.S. processed and high-value food product exports.

In providing this new level of support, FAS will develop and maintain market intelligence on trade levels and trade policy. In addition to FAS' current services of various types of trade shows, buyer and seller communication, label reviews, and inclusion in the basic commodity cooperator market development activities, FAS will encourage more and new cooperative efforts from interested U.S. processed and high-value food product industries.

Through these joint efforts, FAS expects to be able to join with industry in long-term market development while also participating in various export promotions.

The level of increased export promotion, and the extent to which FAS can assist new industry groups in market development is currently a matter of close budgetary review, as we are undergoing a period of budget reductions for all programs including our market development and export promotion areas. FAS does not foresee any added or new cost in establishing the new division as it will be accomplished through minor internal adjustments.

OFFICE OF INTERNATIONAL COOPERATION AND DEVELOPMENT

QUESTIONS SUBMITTED BY SENATOR COCHRAN

Question: What percentage of OICD's overall budget comes from other government sources?

Answer: In fiscal year 1986, OICD will receive 76% of its total budget from other government sources.

Question: What kind of cost/reductions does the budget propose from those agencies for your programs?

Answer: At the present time, our budget shows an increase of about 3% for reimbursements from other government sources. This increase is basically for inflation on non-salary costs.

Question: You indicate in your statement that no furloughs or RIFs will be necessary due to Gramm-Rudman-Hollings. However, your explanatory notes indicate that your total positions will decline from 222 in 1985, to 215 in 1986, and to 204 in 1987. Please explain.

Answer: The staff year reductions result from program reductions, not the Gramm-Rudman-Hollings Act. In fiscal year 1986, the reductions are primarily in the Special Foreign Currency program and reimbursements. In the fiscal year 1987 budget proposal, there are reductions in the above mentioned areas as well as the Binational Collaborative Research and Middle-Income Country Training programs and the Agribusiness Information Center.

Question: You pointed out in your statement that travel has been reduced but I noted in your object classification "transportation of things" has doubled since 1985. What do you transport and why has it increased so much?

Answer: "Transportation of things " includes Federal Express and DHL mail services, parcel post, and shipment of household goods. With the proposed elimination of the Special Foreign Currency program, one employee presently in our New Dehli, India office would return to the United States. Shipment of his household goods will be at least $26,000.

COCHRAN MIDDLE-INCOME COUNTRY TRAINING PROGRAM

Question: We are now in the third year of the training program initiated by this Committee for middle-income countries. What have been some of the benefits of this program from your perspective? How has the program been received by the countries involved, U.S. agricultural counselors, and others?

Answer: The main benefit from the Cochran Middle-Income Country Training Program is the unique way it provides training to enhance both development and trade. The program builds on the fact that middle-income nations are starting to have funds for importing certain items they need, but yet do not have all of their development problems solved -- problems such as storage -- which are factors that actually limit their abilities to import grains or other commodities they might want or need. The program is helping solve these problems while at the same time building relationships and understandings that can lead to strong trade linkages.

Because the program is solving development problems and building relationships, benefits need to be thought of from a long-range perspective. There have indeed been some direct, short-term benefits-- a $550,000 sale of dairy cattle as a result of the contacts made during the training; a Venezuelan trainee who purchased over $100,000 worth of equipment and 700 embryos in order to set up an embryo transfer laboratory; requests for additional U.S. training at the expense of the requesting countries; numerous sales of publications and other materials; etc. The main benefits are going to come from the relationships established during the program, however, and the way these lead to ongoing sales, positive attitudes toward the United States in terms of political and strategic decisions, and other less measurable items.

As for program reception, it has been enthusiatically received by the countries involved. Because AID assistance terminated when they reached middle-income status, these countries have not had many avenues for continued technical training, even though they feel a need for this. The program is thus providing a continuing link with these nations that is not only providing technical expertise they want, but is building friendships and good will of great importance to the United States.

Question: I understand that, because of the interest in this program by recipient countries and the commodity trade groups such as the American Soybean Association and the U.S. Feed Grains Council, you have been able to leverage the appropriated funds to expand the program. Could you please tell us about this?

Answer: In FY 1985, approximately $100,000 was added to the appropriated funds by trade groups and other nations, an amount equal to about 7 percent of the appropriated funds. Anticipated complemenatary funds for FY 1986 total $250,000, or nearly 17 percent of the $1.5 million appropriated for the program. These contributions come in the form of country-financed international air fare, training or local travel provided by commodity trade groups, or other similar arrangements.

To illustrate how this works, last year the Middle-Income Country Training program, the American Soybean Association (ASA), and the Turkish Feed Grain Manufacturers worked collaboratively to provide 28 Turkish feed grain manufacturers with two weeks of technical and practical training. Appropriated funds paid for the week of technical training; ASA organized and paid for translated materials, domestic travel, and industry visits; and the Turkish Feed Grain Manufacturers paid for international travel.

Question: In fiscal year 1985, 40 percent of the Middle-Income Countries training was involved in marketing programs. How is this training beneficial to the United States?

Answer: Storage and handling of commodities in these nations is frequently a problem that prevents expanded imports. Providing technical expertise in grain storage and marketing, for example, is a step toward solving these problems and opening the door for expanded sales of U.S. commodities.

When foreign agriculturists learn marketing techniques, they often create additional demand for commodities. This can, in turn, create opportunities for expanding sales of U.S. products. In Turkey, for instance, as marketing techniques are used to persuade people to eat more poultry, the demand for feed meal increases, thus creating a potential market for a U.S. product.

Question: If no funds are provided for this program in 1987, what will happen to the present participants? Is there any chance the program would be continued with private sources of funds?

Answer: The funds appropriated in fiscal year 1986 will be expended over the approximate two and a half year life of the program and are sufficient to enable present enrollees to complete their programs.

It is unlikely that the program would continue with only private funds. In FY 1985, $100,000 -- or about 7 percent of the appropriated funds -- came from private sources. Although we expect this to double in FY 1986, the funding is not close to the $1.5 million appropriated for the program. Then, too, the commodity trade groups have restrictions on how they can spend their funds. There would need to be funding from somewhere to pay administrative costs associated with the program. Other nations do not have unlimited resources and, consequently, while they are willing to share some of the program costs, they would not be able to underwrite a major portion of the costs.

INTERNATIONAL RESEARCH

Question: Two of OICD's current research programs are not in the fiscal year 1987 budget request -- the Special Foreign Currency program and the Collaborative Research program. Could you please give us a brief explanation of how these two programs differ, and what types of research that are being done under each?

Answer: The Agricultural Trade Development and Assistance Act of 1954, (P.L. 480), authorizes USDA to use U.S.-owned foreign currencies to support cooperative agricultural and forestry research on problems of interest to the United States and participating foreign countries. OICD respresents all USDA agencies in this activity. Since the program's inception in 1958, over 2,000 research projects worth about $143 million in foreign currencies have been negotiated in 32 countries. Scientists in Pakistan, India, and Egypt are now working on 147 projects under this program.

The Special Foreign Currency Research program consists of agricultural research projects with a high level of personal interaction between scientists. Today's cooperative agricultural research in Israel, Poland, and Yugoslavia is the result of past successes of the P.L. 480 programs in those countries. Overseas research has provided new knowledge and technology for U.S. agriculture in such areas as animal and plant diseases, pest control, and germplasm.

OICD initiated the Collaborative Research Program in 1982 to provide partial support for substantial long-term binational research on priority areas of benefit to U.S. agriculture. This program enables OICD to respond rapidly to urgent agricultural research needs concerning potential threats to American agriculture and its export and domestic markets, such as citrus canker, fruit flies, karnal bunt, and African swine fever. High-priority projects are awarded to USDA agencies, U.S. universities, and private agricultural organizations.

The Collaborative Research program constitutes a catalyst to focus the research resources of U.S. and foreign institutions on common agricultural problems. U.S. scientists are provided modest funds for travel, supplies, computer time, etc., to carry out joint projects with foreign counterparts.

Question: Is the Special Foreign Currency program being eliminated because foreign currencies are no longer available for use in these activities?

Answer: Supplies of excess U.S. owned foreign currencies have decreased markedly in recent years and only four countries remain on the excess currency list. However, USDA's SFC appropriation language differs from other Departments' in that payments are not restricted to excess currencies. Thus, we are able to fund from our SFC account, on a limited and selective basis, research projects outside the excess currency countries. We make special arrangements with our Embassies to ensure use of only U.S.-owned foreign currency balances. At present, we are carrying out research in four countries which are not officially designated as excess currency countries.

Question: These programs have been around a number of years. Has any type of analysis been done on the impact they are having? If so, what were the results?

Answer: Routinely, each project under these research programs is required to submit periodic progress reports and a final report. The findings are summarized and their significance commented on by the U.S. Cooperating Scientist. To complement this on-going analysis, we contracted with Associates in Rural Development, Inc. to assess the impact of the program in the United States, as well as the cooperating countries.

I will provide to the Committee a copy of ARD's report dealing with 863 projects conducted in the broad functional areas of plant science, entomology, animal science, veterinary science, soil and water conservation and agricultural engineering from 1958-1980.

ARD is currently working to complete the assessment by evaluating another 900 projects in the areas of:

-- Entomology, plant science, animal science, veterinary science, agricultural engineering, soil and water conservation between 1980 and 1985---156 projects.

-- Human nutrition, market quality and utilization research between 1961 and 1985---504 projects.

-- U.S. Forest service research between 1961 and 1985---241 projects.

We expect this study to be completed by the end of August 1986 and will provide copies to the Committee.

AGRIBUSINESS INFORMATION CENTER

Question: In fiscal year 1986, $200,000 was provided for an agribusiness information center that was recommended by the Agribusiness Promotion Council. No funds are requested to continue this center, however. Did the center prove to be a mistake? Is it not serving the purpose envisioned? Is it not being useful?

Answer: The Agribusiness Information Center, established upon the recommendation of the Agribusiness Promotion Council, has become functional during fiscal year 1986. We believe it is serving its purpose and apparently others are also finding the service useful as its existence becomes known. To illustrate, the center now handles an average of 10 to 12 calls daily compared to the 8 to 10 during first few months the service was initiated.

This budget reduction is part of the Administration's effort to reduce Federal spending in FY 1987 and to meet the deficit target specified in the Gramm-Rudman-Hollings legislation.

Question: What is the major function of the center? What types of information are being provided and to what types of people?

Answer: The purpose of the Agribusiness Information Center is to provide one stop investment, trade, and technical information for potential U.S. investors desiring to do business in the Caribbean, Central America and other Third World countries, while at the same time responding to agribusiness related inquiries from the Caribbean Basin agribusiness representatives desiring to do business in the United States. Specific duties of the information center include but are not limited to:

* Responding to 10-12 daily telephone inquiries related to agriculture trade, finance and investment
* Responding to 15-25 agribusiness related letters weekly.
* Specializing in gathering technical (published) information of nontraditional agricultural commodities for potential U.S. investors.
* Direct terminal/telex services to private sector organizations in the Easter Caribbean.
* Supplying support services (journals, newsclippings, newsbriefs, articles and marketing intelligence) to OICD's Private Sector Relations staff, other United States Department of Agriculture agencies, and Federal agencies.

Question Submitted by Senator Specter

DECREASE FOR INTERNATIONAL RESEARCH ADMINISTRATION

Question: You are proposing a decrease of $590,000 for International Research Administration, a group whose research is intended to protect U.S. agriculture from foreign pests and diseases. This seems to be a rather modest amount to pay for advances against such threats as swine fever. Why is this program being proposed for elimination?

Answer: The proposed decrease of $590,000 will eliminate the Binational Collaborative Research program. This program was initiated in 1982 to provide partial support to U.S. scientists as a catalyst for substantial long-term binational research on high priority areas of benefit to U.S. agriculture.

This reduction is part of the Administration's effort to reduce Federal spending in fiscal year 1987 and to meet the deficit target specified in the Gramm-Rudman-Hollings legislation.

As you are aware, much of our research funding comes from other sources. The following analysis shows that our appropriated budget and staff years enable us to leverage ten times this amount in programs that benefit U.S. agriculture.

Value of Research Programs
Supported by Int'l Research Division's Operating Budget

Program	Annual Obligations (thousand dollars)				
	FY 83	FY 84	FY 85	FY 86	FY 87 est.
Special Foreign Currency ...	$4,900	$5,000	$5,000	$2,854	$ 0
USIF	- -	- -	- -	1,000	2,000
Yugoslavia Joint Board	700	700	1,300	1,500	1,500
Spain	600	- -	3,560	1,710	1,630
U.S.-Israel (BARD)	6,000	6,000	6,500	7,000	9,000
Trinational Egypt-Israel-U.S	- -	900	900	900	700
Collaborative Research	330	470	520	600	0
Azores	- -	- -	50	30	0
TOTAL	12,530	13,070	17,830	15,594	14,830
IRD Operating Budget	1,070	1,090	930	900	900

SUBCOMMITTEE RECESS

Senator COCHRAN. This concludes this hearing. We will convene again on Tuesday, April 29, at 9 a.m., in this same room. We will be hearing from representatives of the Farmers Home Administration. Until that time, the subcommittee will stand in recess.

[Whereupon, at 12:20 p.m., Tuesday, April 22, the subcommittee was recessed, to reconvene at 9 a.m., Tuesday, April 29.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

TUESDAY, APRIL 29, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:30 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Andrews, Abdnor, Kasten, Mattingly, Specter, Burdick, and Bumpers.

DEPARTMENT OF AGRICULTURE

FARMERS HOME ADMINISTRATION

STATEMENTS OF:

FRANK W. NAYLOR, UNDER SECRETARY FOR SMALL COMMUNITY AND RURAL DEVELOPMENT, DEPARTMENT OF AGRICULTURE

VANCE L. CLARK, ADMINISTRATOR, FARMERS HOME ADMINISTRATION

ACCOMPANIED BY:

ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

JAMES C. ANDERSON, DIRECTOR, BUDGET DIVISION, FARMERS HOME ADMINISTRATION

OPENING REMARKS

Senator COCHRAN. The subcommittee will come to order.

This morning, the subcommittee continues its hearings to examine the President's budget request for fiscal year 1987 as it relates to the Department of Agriculture, its programs and activities, and related agencies.

This morning we are reviewing the Farmers Home Administration's budget for fiscal year 1987. This is an area that is of particular interest to Senators who represent farm States, where farmers are having difficulty getting credit for this planting season, and are turning to the Farmers Home Administration for loan assistance.

There are several programs administered by the Farmers Home Administration which are designed to make credit available to those farmers who are unable to obtain financing elsewhere. These are important programs, and they have made a big difference in the ability of many farmers who find themselves in a difficult financial situation to continue operation and to continue working their way out of their financial problems.

It is my hope that we can continue to see this agency function in a sensitive way, recognizing that there are limits to the amounts of funding that may be available under the constraints of the budget, the Gramm-Rudman-Hollings bill, and economic reality. Those factors have to be considered. But at the same time, we hope that the agency can look at the farm situation and work with our agricultural community and individual farmers, to try to make sure that the program is administered in the way that it was intended; that is, to make credit available to those who are really not good credit risks. If they were, they would not be coming to the Farmers Home Administration.

INTRODUCTION OF WITNESSES

We have with us this morning the Under Secretary for Small Community and Rural Development, Frank Naylor, along with Vance L. Clark, who is the Administrator of the Farmers Home Administration, and Bob Sherman, the Deputy Budget Officer of the Department of Agriculture.

We have your statement, Mr. Secretary, which we thank you for, and it will be made a part of the record in full. We invite you to make any comments to the committee that you choose in connection with the budget or the operation of the Farmers Home Administration.

We recognize that Farmers Home has other responsibilities besides lending to farmers. There are several other activities, including housing programs, rural community development, and other activities.

Welcome to the hearing. You may proceed.

UNDER SECRETARY NAYLOR'S REMARKS

Mr. Naylor. Thank you, Mr. Chairman. I just want to take a moment to express my appreciation to you and the members of your committee and staff for the opportunity over the years for me to work so closely with you. We enjoy that privilege, and we look forward to a continued contact and, perhaps, in other capacities in the not too distant future.

I want to take this last opportunity, in this particular setting, to thank you for your assistance. The opportunity of working with you over the years has been enjoyable, and in a very constructive manner on your part. You have been supportive with many problems which we have had to deal with.

I have asked Mr. Clark to make the presentation today on behalf of the agency, and he does have a formal statement. He will be delighted to answer any questions you may have.

I look forward to continue to work with you in the months and years ahead.

Senator COCHRAN. Thank you.

HISTORICAL PERSPECTIVE OF FARMERS HOME

Mr. CLARK. Mr. Chairman, we appreciate this opportunity to be with you today to discuss our Farmers Home budget for fiscal year 1987. As you are aware, 1985 marked the 50th anniversary of FmHA and its predecessor agencies. The present and former agencies have been assigned a wide variety of tasks over the years relating to farming and other aspects of rural and smalltown America. Some programs were dropped over the years, having lived out their usefulness, and others were added.

For that half-century, Mr. Chairman, the record shows that Farmers Home made more than 9.6 million loans and grants totaling almost $134 billion. The largest share of that assistance, approximately one-half the total, went to farmers, 4.4 million loans and grants totaling $63 billion. We closed out the 1985 fiscal year with a portfolio of almost 2 million loans and grants approaching $70 billion.

When you compare the current portfolio with the all-time totals, it becomes obvious that the greatest degree of growth has come in recent, rather than the early, years.

Last year's farm operating loans, for example, totaled $4.7 billion, by far the most funds ever committed by the agency to that one program. Farm loans accounted for almost $6 billion of the $9.5 billion obligated in farm, housing, and community loans and grants. Of particular interest is the fact that guaranteed farm loans, both operating and ownership, exceeded $1 billion for the first time. That represents a concerted effort by the administration to encourage the private, commercial credit industry to extend its services to the agricultural community, with the Government acting as guarantor in those cases where necessary to enable a good farmer to continue in operation.

FISCAL YEAR 1987 BUDGET

As we all know, Mr. Chairman, most things change over time, including our needs and our perception of those needs. Today, we are in a period of budget austerity with widespread public support to get our fiscal house in order, while at the same time retaining certain essential services.

In line with this, we are requesting for the fiscal year 1987, a total budget of just under $4.6 billion, including $382.6 million for administrative expenses. That may not seem like an austere budget to some, but we believe it meets the President's goal of a balanced budget achieved through reduced Federal spending and less public reliance on the Government for those services best provided through the private sector.

Nevertheless, this amount will provide a substantial amount for the farm operating loan program—$1.5 billion in direct loans and $2.5 billion in guaranteed loans. This is a noticeable increase over the $3.2 billion budgeted for operating loans this year and reflects the administration's concern that adequate operating credit be available to our Nation's farmers.

In addition, we expect to utilize $185 million for the Interest Buy-Down Program in conjunction with our guaranteed loans. This program was enacted by the 1985 farm bill for a 3-year period, beginning in fiscal year 1986.

These levels will provide for more than 50,000 farm operating loans in fiscal year 1987, which is an increase of about 5,000 loans over the fiscal year 1986 program estimate. This represents a substantial increase after inflation in this critical credit need.

Taking into consideration the deficit situation and the expense of increasing the Federal debt, we are proposing legislation to terminate the Farm Ownership Loan Program and the other, smaller farm real estate loan programs.

Our budget request for the Agricultural Credit Insurance Fund also includes $2,440,203,000 to reimburse the fund for interest subsidies and losses of prior years.

Although no programs are proposed in the Rural Housing Insurance Fund for fiscal year 1987, the budget request includes $2,714,566,000 for interest subsidies and losses from prior years and authority to carry out rental assistance contracts obligated in previous years.

Similarly, the budget includes $736,619,000 for the Rural Development Insurance Fund for interest subsidies and losses of prior years. In the future, housing assistance for rural areas will be obtained through the Department of Housing and Urban Development.

Federal assistance for water and sewer projects and other community development projects will be part of the community development block grants administered by the Department of Housing and Urban Development and wastewater construction grants administered by the Environmental Protection Agency.

For salaries and expenses, the budget request includes $382,639,000. This level, added to the amounts transferred from the revolving funds for necessary administrative expenses, will provide for an employment ceiling of 11,000 staff-years. Although this is below the levels of recent years, the termination of loan making in several programs will allow us to concentrate our staff efforts on farm operating loan-making and servicing of the nearly $70 billion portfolio. We expect these concentrated efforts to result in more operational stability for our relatively low income borrowers and enhanced loan servicing throughout our portfolio.

In addition, we are continuing our major project to modernize our communications, recordkeeping and accounting functions. We expect to bring on-line our first multifunction work stations this year and to virtually complete this conversion by the close of fiscal year 1987. We expect to see substantial benefits of this more up-to-date technology in the near term.

PREPARED STATEMENT

Mr. Chairman, this completes the highlights of the budget proposals. As in the past, we have a brief history of the agency which includes additional statistical data, that we would like to give you for the record, if you like. We appreciate the support of this committee and will attempt to answer any questions you might have of us.

[The prepared statement of Mr. Clark and the publication, "A Brief History of Farmers Home Administration," follow:]

STATEMENT OF VANCE L. CLARK

Mr. Chairman and Members of the Committee, we appreciate the opportunity to be with you today to discuss the budget for the 1987 fiscal year. As you are aware, 1985 marked the 50th anniversary of FmHA and its predecessor agencies. The present and former agencies, under whatever names, have been assigned a wide variety of tasks over the years relating to farming and other aspects of rural and small town America. Some programs were dropped over the years, having lived out their usefulness, and others were added.

For that half-century, Mr. Chairman, the record shows more than 9.6 million loans and grants totaling almost $134 billion. The largest share of that assistance, approximately one-half the total, went to farmers: 4.4 million loans and grants totaling $63 billion. We closed out the 1985 fiscal year with a portfolio of almost 2 million loans and grants approaching $70 billion.

When you compare the current portfolio with the all-time totals, it becomes obvious that the greatest degree of growth has come in recent, rather than the early years.

Last year's farm operating loans, for example, totaled $4.7 billion, by far the most funds ever committed by the agency to that one program. Farm loans accounted for almost $6 billion of the $9.5 billion obligated in farm, housing and community programs. Of particular interest is the fact that guaranteed farm loans, both operating and ownership, exceeded $1 billion for the first time. That represents a concerted effort by the administration to encourage the private, commercial credit industry to extend its services to the agricultural community, with the Government acting as guarantor in those cases where necessary to enable a good farmer to continue in operation.

As we all know, Mr. Chairman, most things change over time, including our needs and our perception of those needs. Today, we are in a period of budget austerity with widespread public support to get our fiscal house in order, while at the same time retaining certain essential services. In line with this, we are requesting, for the fiscal year 1987, a total budget of just under $4.6 billion, including $382.6 million for administrative expenses. That may not seem like an austere budget to some, but we believe it meets the President's goals of a balanced budget achieved through reduced Federal spending and less public reliance on the Government for those services best provided through the private sector.

Nevertheless, this amount will provide a substantial amount for the farm operating loan program — $1.5 billion in direct loans and $2.5 billion in guaranteed loans. This is a noticeable increase over the $3.2 billion budgeted for operating loans this year and reflects the Administration's concern that adequate operating credit be available to our Nation's farmers. In addition, we expect to utilize $185 million for the interest buy-down program in conjunction with our guaranteed loans. This program was enacted by the 1985 Farm Bill for a 3-year period, beginning in FY 1986.

These levels will provide for more than 50,000 farm operating loans in FY 1987, which is an increase of about 5,000 loans over the FY 1986 current program estimate. This represents a substantial increase after inflation in this critical credit need.

Taking into consideration the deficit situation and the expense of increasing the Federal debt, we are proposing legislation to terminate the farm ownership loan program and the other, smaller farm real estate loan programs.

Our budget request for the Agricultural Credit Insurance Fund also includes $2,440,203,000 to reimburse the Fund for interest subsidies and losses of prior years.

No funds are requested for the housing and community programs, which we propose be terminated. However, in the Rural Housing Insurance Fund for FY 1987, the budget request includes $2,714,566,000 for interest subsidies and losses from prior years and authority to carry out rental assistance contracts obligated in previous years.

Similarly, the budget includes $736,619,000 for the Rural Development Insurance Fund for interest subsidies and losses of prior years. In the future, housing assistance for rural areas will be obtained through the Department of Housing and Urban Development. Federal assistance for water and sewer projects and other community development projects will be part of the community development block grants administered by the Department of Housing and Urban Development and waste water construction grants administered by the Environmental Protection Agency.

For salaries and expenses, the budget request includes $382,639,000. This level, added to the amounts transferred from the revolving funds for necessary administrative expenses, will provide for an employment ceiling level of 11,000 staff years. Although this is below the levels of recent years, the termination of loan making in several programs will allow us to concentrate our staff efforts on farm operating loan making and servicing of the nearly $70 billion portfolio. We expect these concentrated efforts to result in more operational stability for our relatively low income borrowers and enhanced loan servicing throughout our portfolio.

In addition, we are continuing our major project to modernize our communications, recordkeeping and accounting functions. We expect to bring on-line our first multifunction work stations this year and to virtually complete this conversion by the close of FY 1987. We expect to see substantial benefits of this more up-to-date technology in the near term.

Mr. Chairman, this completes the highlights of the Budget proposals. As in the past, we have a brief history of the Agency which includes additional statistical data, that we would like to give you for the record, if you like. We appreciate the support of this Committee and will attempt to answer any questions you might have of us.

BIOGRAPHICAL SKETCH

VANCE L. CLARK

Vance L. Clark, a veteran banker with extensive experience in agricultural credit, was nominated by President Reagan on July 12 to be administrator of the Farmers Home Administration, principal credit agency of the U.S. Department of Agriculture.

During his professional career, Clark spent 42 years with the Bank of America. Upon his retirement in 1983, he was regional senior vice president with offices in Fresno and overall responsibility for the bank's operations in the San Joaquin Valley through 104 branches with 3,200 employees.

Clark was born Sept. 17, 1923, in St. Paul, Neb., where he grew up and attended Nebraska Business College. Upon graduation in 1941, he joined the Bank of America in its Los Angeles district. He served in a number of the bank's offices while advancing up the career ladder and serving the credit needs of California's diverse agriculturalcommunity, as well as other clients.

He served in the Pacific campaign as a member of the Marine Corps from 1943 to 1946, and was called back to active duty in 1950 during the Korean conflict.

His education includes graduation from the University of California at Los Angeles Graduate School of Business Executive Development, the Pomona College executive program, the Brookings Institution government operations conference, and courses in such fields as farm management and financing and crop production at the University of California Davis and California Polytechnic Institute. Clark holds an honorary juris doctor degree from the San Joaquin Valley College of Law which was conferred in 1981.

Business and professional memberships have included the California Student Aid Commission, the boards of the Bank of America's Livestock Symposium (an educational outreach forum) and the Producers Cotton Oil Company, and the Business Advisory Council to Public Television and Channel 18 Fresno. Clark has served as president of the Fresno County and City Chamber of Commerce, chairman of the Business Advisory Council to the School of Business and Administrative Sciences, University of California Fresno, and board chairman of the trustees of the San Joaquin College of Law.

Clark and his wife have three sons and six grandchildren.

A Brief History of Farmers Home Administration

During fiscal year 1985, Farmers Home Administration County Supervisors and their staffs made over 108,000 loans worth over $5.9 billion to the Nation's farmers, the vast majority of whom could not get credit elsewhere and most likely would have been forced to leave agriculture without FmHA assistance.

Our people in the more than 1,900 county offices across the Nation worked diligently with farmers facing economic difficulty, most through no fault of their own. County Supervisors were able to partially defer loan payments of interest and principle for five years for nearly 16,000 borrowers and to reschedule or reamortize loans for another 29,000 borrowers.

County FmHA personnel, working on an individual basis with farmers, were able to continue with 98.4 percent of them during this year of severe economic stress for production agriculture.

In addition to assisting farmers, County Supervisors and their staffs helped other rural residents obtain or repair single family homes. During fiscal year 1985, local county offices handled over 58,000 loans and grants worth more than $1.8 billion.

These raw statistics do not adequately reflect the overall contribution to rural communities made by FmHA staffs, many of whom grew up in the same town and know their borrowers as friends, church members and civic club associates. Neither do the numbers reflect the dedication of county personnel who work late into the evening and weekends or who, on their own initiative, help with farm chores of sick or disabled farmers. The many hours spent in counseling farm borrowers is not recorded nor do reports track the assistance given to young people working on their 4-H or Future Farmers of America projects.

District Directors have returned to their earlier role of overseeing and assisting County Supervisors. They, too, continue to play a major role in helping rural communities. District Directors and their staffs in over 300 offices provided more than 1,400 loans and grants worth over $600 million for rural water systems, waste disposal systems and other community facilities such as fire houses, town halls, and health facilities.

The 46 FmHA State Directors and their staffs direct and support agency activities in all 50 States and U.S. territories. In addition, they work closely with other Federal Government agencies, State governments and statewide organizations. Again, there are no statistics or reports which document the extra work they do on their own to assist farmers and small communities.

As all of us at Farmers Home Administration strive to implement the mandates of Congress, we are continuing the 50-year tradition of dedication and personal commitment to rural America, which has always gone well beyond official duties and responsibilities.

Vance L. Clark

VANCE L. CLARK
Administrator

Farmers Home Administration (FmHA) is the credit agency for agriculture and rural development in the U.S. Department of Agriculture (USDA). In 1985, the agency marked its 50th anniversary as a lender of last resort, providing financial and technical assistance in rural America. This service has been performed under the successive names of Resettlement Administration, Farm Security Administration, and Farmers Home Administration.

When it began in 1935, the agency's original function was to make loans and grants to Depression-stricken families and help them regain self-sufficiency in making their living on family farms. Throughout its half-century of operation, FmHA has been concerned primarily with credit and counseling services that have supplemented resources of the private sector for building stronger family farms. In 1985, farm credit still accounted for more than one-half of all resources administered by FmHA.

During the last two decades, Congress created additional nonfarm programs of benefit to families and communities in rural areas. These programs have helped to provide safe, modest housing; modern, sanitary water and sewer systems; essential community facilities; and job and economy-boosting business and industry in rural areas. These are reflected in the current mission statement which directs FmHA to "serve as a temporary source of supervised credit and technical support for rural Americans for improving their farming enterprises, housing conditions, community facilities, and other business endeavors until they are able to qualify for private sector resources."

FmHA has been a leading force in spreading the outreach of nongovernmental lending institutions into rural sectors that lacked access to such financial resources.

In the credit delivery system reaching to the county level that FmHA has developed over the years, approximately 11,036 permanent full-time employees are engaged in directing FmHA resources from the National Office in Washington, D.C., 46 State offices, 269 district offices, and about 1,944 county offices serving every rural county or parish in the 50 States plus the Pacific Trust Territory, American Samoa, Guam, Puerto Rico, and the Virgin Islands. FmHA's network of offices enables it to maintain a close, one-on-one relationship with its borrowers.

FmHA's existing system of personal contact across the country has established it as a lead agency for rural development. Congress and the Administration continually recognize FmHA's long experience in serving rural communities and farm families and have over the years expanded old services and created new ones.

FmHA loans and grants supplement the amount of credit and capital directly available from commercial lenders in rural areas. In most programs, the agency makes loans to qualified applicants who can find no other sources of financing available on terms or conditions they can meet.

The money loaned by FmHA comes from collections on previous loans, or from private investors through sale of Government securities. In guaranteed loan making, funds are supplied directly to borrowers by commercial lenders, with FmHA minimizing the lender's risk.

Grants for rural water and waste disposal systems, farm labor housing, home repair for low-income elderly people, and "self-help" homebuilding by low-income families supplement the agency's rural lending program.

EARLY CREDIT HISTORY

On July 17, 1916, President Woodrow Wilson signed the Federal

Farm Loan Act and marked the beginning of Federal involvement with agricultural credit. The act created the Federal land banks and the joint stock land banks which were designed to provide farmers with a dependable source of long-term credit at low interest.

Emergency crop and seed loans were provided by Congress through the Secretary of Agriculture from 1918 through 1931. These "feed, seed and fertilizer" loans were made to assist farmers in designated areas that had suffered unusual hardships, such as droughts and floods, and who could not obtain credit elsewhere. In 1931, these loans were available on a nationwide basis. They usually were limited to $400, with the average loan being $125.

The Reconstruction Finance Corporation (RFC) was established January 22, 1932, and began operation on February 2, 1932. It was charged with meeting emergency credit situations throughout the economy, helping maintain economic stability, and assisting in promoting maximum employment and production. It provided the funds to organize 12 regional agricultural credit corporations (RACC's) through which operating loans were available to farmers, particularly ranchers, with no other sources of credit.

In the fall of 1932, when Franklin D. Roosevelt was elected President, the need for rural credit was one of the country's major problems. As in the rest of the country, rural banks were closing, farm prices were at an all-time low, unemployed city dwellers were going "back home" to the farms, and sources of credit had evaporated. Angry and threatening mobs of farmers at frequent tax and foreclosure sales were common occurrences.

When Roosevelt was inaugurated on March 4, 1933, he began to implement the Federal Government's attempts to provide agricultural assistance. On March 27, 1933, he issued an Executive order to be effective May 27, establishing and consolidating within the Farm Credit System, all the functions, powers, and funds of existing Federal agricultural credit agencies.

These included the Federal land banks, Federal land bank associations, the joint stock land banks, the Federal intermediate credit banks, the 12 regional agricultural credit corporations from the Reconstruction Finance Corporation, and the crop and seed loans from USDA. The Governor of the Farm Credit Administration could authorize larger loans under the Emergency Crop and Feed Loan program (as it was known in March 1933) to farmers in distressed areas as determined by the Secretary of Agriculture. The Farm Credit System also would include funds for the Secretary of Agriculture to invest in agricultural credit corporations and livestock loan companies, which Congress hoped farmers would use to support organizations that could discount notes with the Federal intermediate credit banks.

By May 12, 1933, Roosevelt had signed the Farm Credit Act of 1933, rounding out the permanent group of banks and associations that make up much of the same cooperative Farm Credit System of today. This act established the production credit corporations, one in each of the 12 Federal land bank districts, to organize, finance and supervise the authorized local production credit associations (PCA's). The Act also established 12 district banks for cooperatives, plus the Central Bank for Cooperatives in Washington, D.C.

On May 12, 1933, Roosevelt also signed the Federal Emergency Relief Act, which is considered the "unofficial" origin of FmHA because of its roots in the rural rehabilitation efforts authorized by the act.

As a result of the Farm Credit Act, the PCA's assumed the functions of the 12 regional agricultural credit corporations in 1933, and by the end of 1934, about 30 percent of their loans had been taken over. The RACC's continued for a time to finance some special loans the PCA's could not handle, and in 1943, loans were made for production of food and fibers needed for World War II.

The Rural Rehabilitation Division, functioning under the Federal Emergency Relief Administration was organized in April of 1934 by authority of the Federal Emergency Relief Act of 1933. However, the rural rehabilitation agency had no basic laws to govern its actions. It was headed by Rexford Tugwell, remembered for his unusual projects such as several low-rent "green towns" on the far outskirts of a few cities, and government loan programs for smaller farmers--programs that typically involved getting the borrowers to agree to operate their farms under new farming plans drawn up by the county rural rehabilitation representative.

Rural rehabilitation corporations were established in about 40 States to make loans to destitute farm families to enable them to remain on the land, continue their farming operations, and reduce the number of people on the relief rolls.

This approach to farm lending was quite different from that of the Farm Credit System's "business" type loans that were dependent for their financing largely on the sale of their securities to investors without any government guarantee.

In those early days, the differences in philosophies of the two agricultural lending organizations were pronounced. At one point in the early 1930's it was suggested that the Rural Rehabilitation Division should be incorporated into the Farm Credit System. In the early 1940's there were suggestions that all or part of the Farm Credit System might be taken over by the successor to the rural rehabilitation agency, the Farm Security Administration. In 1947, a bill was introduced in Congress which would have coordinated the Farm Security Administration and Farm Credit System into a new agricultural credit agency. This proposal died in the Senate. Eventually Congress enacted a law to govern the Farm Security Administration which placed some limits on its activities.

After the establishment of the Farmers Home Administration in 1946, much of the talk of merger and takeovers subsided, along with criticism from Congress and farm groups.

RESETTLEMENT ADMINISTRATION

The "official" lineage of FmHA goes back to April 30, 1935, when President Franklin D. Roosevelt signed Executive Order 7027, creating the Resettlement Administration as an independent agency. On June 19, 1935, the Administrator of the Federal Emergency Relief Administration ordered the depression-era programs and functions of the Rural Rehabilitation Division to be transferred to the new agency. On January 1, 1937, all powers and duties vested in the Resettlement Administration were formally assigned to the Secretary of Agriculture.

During its 2-year existence, the Resettlement Administration offered various approaches to solving the problems of poor people and poor land, the most popular of which was the supervised loan program. These loans were part of a Governmentwide effort to help needy rural people reestablish themselves on a self-supporting basis.

The Resettlement Administration made more than 300,000 short-term loans, often supplemented by grants to low-income farm families. Each loan was based on a farm and home management plan worked out by county, farm, and home supervisors in cooperation with the borrowing family. The plans were designed to ensure the use of good farming practices and to fit the needs of the families taking part in the program.

By 1937, there was a growing conviction in USDA and in Congress that supervised credit as pioneered by the Resettlement Administration was the answer to a worsening national problem of hardship and failures among tenant farmers. The scope of loan assistance was broadened on July 22, 1937, with the passage of the Bankhead-Jones Farm Tenant Act which authorized tenant farmers to obtain loans to purchase farms of their own. In 1937, 40 percent of U.S. farms were operated by tenants and sharecroppers who, because of their uncertain farming tenure, rarely made improvements in land or buildings, nor did their landlords.

The Resettlement Administration was given the responsibility for the new program of supervised farm ownership loans with 40-year terms for farmers who lacked other sources of credit for buying their own land and for farm and home improvement. County committees were set up to select borrowers and approve loans. The tenant purchase loans never reached a high level in the volume of dollars involved or families aided. The program, however, attracted a great deal of attention as it represented the realization of the American dream of people with almost no resources being able to become landowners.

Also enacted in 1937 was the Water Facilities Act to provide loans for individual and association farm water systems in 17 Western States where drought and water shortage were familiar hardships. The Resettlement Administration shared servicing responsibilities of the program with the Soil Conservation Service and the Bureau of Agricultural Economics. This act was the forerunner of the rural water programs now administered by FmHA.

FARM SECURITY ADMINISTRATION

On September 1, 1937, the Farm Security Administration (FSA) was created as successor to the Resettlement Administration. All functions, funds, personnel, and properties were transferred to the new agency. Its primary responsibilities were to make farm rehabilitation and farm ownership loans to farmers unable to borrow from usual sources of credit.

For the ensuing 9 years, FSA carried on supervised credit programs with farm and home counseling by county office staff, including home economists. The success of a large percentage of these borrowers helped strengthen family farm agriculture and helped the Nation meet its awesome food-producing challenges in World War II. By 1941, FSA had made more than 13,000 loans to tenant families for the purchase of farms.

FSA also carried on Resettlement-oriented projects to establish new farms and communities, services in group medical care, agricultural cooperatives, migratory labor camps, and other social and economic programs.

In 1942, FSA was given full responsibility for the water facilities program in the 17 Western States.

FARMERS HOME ADMINISTRATION

By 1946, it was generally conceded both in and out of Congress and within the agency itself that a restructuring of FSA was necessary. Some old Resettlement programs were no longer justified, others could be improved, and new programs would be needed in the period following World War II.

Accordingly, on August 14, 1946, Congress passed the Farmers Home Administration Act. This measure, which took effect in 1947, reconstituted FSA under the new name Farmers Home Administration.

The Farmers Home Administration consolidated programs of FSA and the Emergency Crop and Feed Loan program of the Farm Credit Administration.

The Farmers Home Administration Act also gave the agency new authority to insure loans made by banks, other agencies, and private individuals, as well as to make direct Government loans. The act brought an end to Rural Rehabilitation loans as federally administered programs. Over 3 million loans, totaling over $1 billion, had been made since 1935 by the Resettlement and Farm Security Administrations.

In its first 3 years, the Farmers Home Administration confined its operations to development of supervised farm ownership and farm operating loan programs, and to water facilities projects in the 17 Western States.

The agency was commonly known as "FHA" until April of 1974 when USDA formally adopted "FmHA" as the agency's abbreviation. This was done to easily distinguish Farmers Home Administration from other agencies having the same initials, such as the Federal Housing Administration and Federal Highway Administration.

EXPANSION OF FmHA SERVICES

The first of many additions to FmHA's portfolio of services, all made available to rural people through the well-established system of FmHA county offices, came in 1949.

On April 19, 1949, the Regional Agricultural Credit Corporations were transferred to FmHA after lending a total of $662 million. The 12 RACC's and their 21 branches were gradually consolidated into one Regional Agricultural Credit Corporation in Washington whose purpose was to handle other specialized lending programs.

The following are highlights of the Congressional acts from 1949 through 1984 that have molded FmHA's wide variety of services.

Title V of the Federal Housing Act of 1949 gave FmHA authority to make housing loans to farmers as a part of the national housing program. The major housing programs under this legislation are Section 502, single family housing; Section 504, single family housing repair and rehabilitation; and Section 515, rural rental housing.

The Disaster Loan Act of 1949 originated the special emergency farm loan for recovery from losses inflicted by natural disaster.

The Water Facilities Act was amended in 1954 to apply nationwide, rather than limited to the 17 Western States, and to let farm area water systems take on nonfarm customers in rural communities.

Rural development was given Federal program status by USDA administrative action in 1955. FmHA's first involvement was a pilot program of loans to small farmers who could not qualify for regular FmHA loans.

In 1959, FmHA began to make loans to local organizations covering the local share of cost in small watershed projects under Public Law 566.

Major overhauling and expansion of FmHA authorities came with passage of the Consolidated Farmers Home Administration Act of 1961. (In 1972, this title was changed to the Consolidated Farm and Rural Development Act, often referred to as the "con act.") Its principal provisions were the following:

* Raised limits on farmer loans to $60,000 for farm ownership, replacing a formula whereby each county's limit had been the average value of its

family farms and from $20,000 to $35,000 for farm operating purposes.

- Opened up the water system program to the general rural population, including incorporated towns of up to 2,500. The loan limit on a project (previously $250,000) was raised to $500,000 for a direct FmHA loan and to $1 million for an insured loan.

Also in 1961, the Federal Housing Act was amended to make nonfarm rural residents eligible for FmHA's direct housing loans. This new jurisdiction in rural housing extended to towns of up to 2,500 population.

Still more expansion of FmHA services came in 1962. The Senior Citizens Housing Act set up loans for low-rent apartment projects designed to meet the needs of people age 62 and over. This type housing was acutely lacking in rural communities.

Amendments to the Farmers Home Administration Act authorized loans for a shift in land use to outdoor recreational facilities built primarily to benefit rural people. The agency began to make loans to family farmers to set up farm-based recreation and other nonagricultural enterprises that would add to family income, and for association grazing ranges where family farmers and ranchers share the use of more grazing land for livestock production.

A pilot program for rural renewal, delegated to FmHA, launched experiments in several States to develop better community facilities, improve homesites and housing, and attract new industry to underdeveloped rural areas. Rural renewal was discontinued as an experimental program in 1969.

FmHA also was authorized in 1962 to make loans covering local project costs in areas designated for benefits of a resource, conservation, and development program which, like the small watershed program, is supervised by USDA's Soil Conservation Service.

The Economic Opportunity Act of 1964 established loans to low-income rural people for small farm improvements or nonfarm enterprises that would add to family income. FmHA performed the lending through its county offices with funds provided by the Office of Economic Opportunity until 1971. The agency made nearly 65,000 loans totaling $109.3 million to individuals and 1,476 loans totaling $21 million to cooperatives.

EXPANSION OF PROGRAMS TO PRESENT LEVELS

The expansion of old programs and enactment of new ones during the first 4 years of the 1960's raised FmHA's total loan and grant volume from the $300 million level of fiscal year 1960 to $750 million in fiscal year 1965.

In 1965, the water facilities loan program was transformed into a loan-and-grant program for both water and waste disposal systems. At the same time, rural towns of up to 5,500 were made eligible to be included in FmHA-financed projects, and the limit on FmHA financing of a project was raised to $4 million.

Rural housing was changed from a program of direct loans to one primarily of insured loans, and the population limit on towns served through FmHA was raised from 2,500 to 5,500. This opened the way for the greatly increased housing services for rural people.

In 1966, senior citizens and younger low-income families became eligible for FmHA rural housing loans or tenancy in rural rental housing.

In 1968, an overhauling of the Housing Act of 1949 established the interest-supplement housing loan program. It enabled some low-income families to pay as little as 1 percent interest and provided for subsidized loans to developers of low-priced rental housing for low-income families and senior citizens. New programs also were enacted in 1968 for rural homesite development loans and for grants toward support of "self-help" homebuilding group projects. Grants of up to 90 percent, as well as loans, were authorized for farm labor housing projects.

In 1968, Congress abolished a statutory annual ceiling of $450 million on FmHA-insured loan authority for farm ownership and community facilities combined, and raised the national total authorization for water-waste disposal grants from $50 million to $100 million a year.

In 1970, legislation was passed to remove technical barriers to the use of investors' FmHA-insured funds, rather than direct appropriated funds, for loans to tax-exempt public bodies such as municipalities and public service districts. That year marked the beginning of a period of rapid growth and increased service to small towns.

The Housing Act of 1970 raised the population limit to 10,000 for a rural community where FmHA housing loans may be made.

In farm credit programs, the agency took action in 1970 to increase its cooperation with other lenders in jointly serving farm borrowers, with FmHA taking a second lien when the same security is mortgaged both for the FmHA and other lenders' loans. In 1971, the limit on a farm ownership loan secured by a mortgage on real estate was raised from $60,000 to $100,000.

The Rural Development Act of 1972, enacted August 20, 1972, gave USDA primary responsibility for Federal activities in support of rural development. It established the position of Assistant Secretary for Rural Development to coordinate this effort through the programs and expertise of FmHA, the Rural Electrification Administration (REA), and the Rural Development Service (RDS). In 1977, RDS was merged with FmHA and in 1981 it was elevated to the Office of Rural Development Policy.

In its other principal provisions affecting FmHA, the act--

* Authorized FmHA to guarantee loans made by commercial lenders for farming, housing, and rural business and industry, including enterprises in cities of up to 50,000 population.

* Abolished the limit of $4 million per project on FmHA financing of water and waste disposal systems, increased the national grant authorization for water and waste disposal to $300 million a year, and raised the population limit on towns eligible for FmHA-financed systems to 10,000.

* Authorized FmHA loans for other kinds of essential community facilities such as fire departments, community halls, hospitals, nursing homes, and other related facilities.

* Authorized FmHA grants to improve rural industrial sites.

* Authorized area assistance planning grants.

* Authorized FmHA to make investor-funded insured loans for farm operating purposes, and raised the limit on a farm operating loan from $35,000 to $50,000.

* Authorized youth loans to rural young people under age 21 for farm or nonfarm income-producing enterprises supervised through schools or

organizations, such as 4-H Club and Future Farmers of America programs.

- Set $225,000 as the maximum permissible debt against farm property on which FmHA and a cooperating lender may simultaneously hold liens. This enabled FmHA to participate in larger loans up to its limit of $100,000 to family farmers and ranchers.

The emergency loan program to help farmers recover from natural disaster underwent a short-lived expansion in 1972. An act of Congress, stimulated by the Hurricane Agnes disaster in Northeastern States, liberalized emergency loan terms nationwide and decreed nonrepayment of the first $5,000 to cover actual loss. After the cost mounted to about $550 million within a few months, the program was suspended and Congress in 1973 returned emergency loans to a fully repayable basis. Legislation in 1975 established separate categories of disaster emergency loans to cover losses and to finance resumption of farm production operations. Under the Small Business Development Act of 1980, FmHA was given authority to make unsubsidized emergency loans to farmers who are able to get credit from commercial lenders. The law limits loans to these creditworthy borrowers for actual loss only.

A special Emergency Livestock Credit Act for FmHA's guarantee of commercial lenders' loans to livestock and poultry producers in financial distress was enacted July 25, 1974. The program expired September 30, 1979. Under terms of the program, FmHA guaranteed a maximum $350,000 worth of commercial credit for an eligible borrower. Loan guarantees totaling $1.5 billion of principal outstanding were authorized. About $1 billion of this credit was used by farmers and lenders.

Under amendment of the National Housing Act, passed in 1974, FmHA in 1976 introduced its housing loans into towns of 10,000 to 20,000 population outside the Standard Metropolitan Statistical Areas (SMSA's)* and certified by the Secretaries of Agriculture and Housing and Urban Development (HUD) to be lacking in mortgage money from other sources. Later in 1976, Congress revised the criteria for serving the larger non-SMSA communities by specifying that consideration be based on shortage of mortgage loan funds for families of low and moderate income. Housing Act amendments of 1974 also authorized extension of FmHA housing loan services to U.S. island territories, including trust territories in the Pacific. (Service was initiated on Guam in 1976 and other islands in 1977.)

The guarantee of commercial lenders' housing loans to families of moderate income was implemented in January 1977 under authorities provided in the Housing and Rural Development Acts. However, under the Housing Act Amendments of 1977, guarantee of housing loans was limited to the service of families with above moderate income. In 1977, FmHA also implemented grants to senior citizens with very low income for repair of badly deficient houses, and an authority under housing legislation of 1974 to provide rental assistance supplementing rent paid by low-income tenants of FmHA-financed rental housing.

The Emergency Agricultural Credit Adjustment Act, enacted August 4, 1978, substantially changed the farm programs of FmHA and added a new program of economic emergency loans. The new program authorized FmHA to make or guarantee loans of up to $400,000 to farmers or ranchers hard pressed by shortages of credit from regular sources or by a cost-price squeeze. The agency was authorized to carry a maximum of $6 billion in economic emergency loans at any one time. The loans could be used to refinance certain outstanding debts, reorganize the farming operation, and pay other operating expenses. However, funds could not be used to expand farming operations. (See page 12 for extension and expiration of this program)

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*Name changed to Metropolitan Statistical Areas (MSA's) in 1984.

The 1978 Agriculture Credit Act also made changes in existing programs --

- Expanded eligibility for farm loans to family corporations, cooperatives, and partnerships, as well as individuals.
- Increased loan limits to $200,000 for insured and $300,000 for guaranteed farm real estate loans and to $100,000 for insured and $200,000 for guaranteed farm operating loans.
- The interest rate for farm ownership loans was changed to be based on the cost of borrowing to the Government. Special interest rates on ownership and operating loans were made available for limited-resource farmers.
- The interest rate for actual losses under disaster emergency loans also was set at 5 percent.
- The maximum allowable grant for water and waste disposal projects was increased from 50 percent to 75 percent.
- Revoked the requirement that the Department of Labor clear business and industrial loans of less than $1 million and when employment is less than 50 people.

Powerplant and Industrial Fuel Use Act of 1978 (Section 601) provided energy impact assistance grants to rural communities which faced problems of rapid growth due to new coal and uranium mining. This was sometimes referred to as the boomtown program. Grants were available for planning as well as acquiring and developing sites for housing and public facilities.

Energy impacted areas were designated by State governors and approved by the U.S. Department of Energy. By the end of 1981, approximately 400 grants had been awarded to communities within the designated 24 States. The program has not been funded since 1981.

The Rural Development Policy Act of 1980 gave USDA a leadership role in coordinating a nationwide rural development program. Among other provisions, it created the position of Under Secretary of Agriculture for Small Community and Rural Development and increased FmHA's annual authorization for Section 111 planning grants.

The planning grants under Section 111 had been authorized by the Rural Development Act of 1972. The grants were made to States, substate districts, local governments, and certain community-based organizations to encourage and help meet the cost of comprehensive planning in rural areas. Grants were used for planning a wide variety of services including water, sewer, housing, energy, and economic development. Through its final year of funding, fiscal year 1981, the Federal Government made 605 grants for a total of $19 million.

The Energy Security Act of 1980 was a $20 billion comprehensive synthetic fuel measure designed to spur the production of 500,000 barrels of synfuels daily by 1987 and 2 million barrels by 1992. Small-scale projects (less than 1 million gallons per year) with a loan amount of less than $1 million, and intermediate projects (over 1 million and less than 15 million gallons) became eligible for FmHA financing.

Although the 1978 Emergency Agricultural Credit Adjustment Act set May 15, 1980, as the expiration date for the economic emergency loan program, the Agriculture and Food Act of 1981 extended authority for the program until September 30, 1982. In 1983, the U.S. District Court in Washington, D.C., directed FmHA to reopen its economic emergency loan program for a limited time, from December 22 through September 30, 1984.

The Rural Housing Amendments of 1983, enacted on November 30, created changes in the single family and multifamily housing programs of FmHA. The new legislation directed FmHA to give more priority to serving very-low-income households and making its housing assistance more affordable to low-income persons in rural areas. The law required that FmHA revise its income definitions to be consistent with HUD's and to also accept any of the voluntary national model building codes and HUD minimum property standards, in addition to the FmHA construction standards.

Other provisions of the law:

* Permit FmHA to extend single family home mortgages from 33 years up to 38 years to persons whose incomes do not exceed 60 percent of the area's median income.

* Authorize FmHA to make single family or multifamily housing loans for permanently sited mobile/manufactured housing units, including the lots on which they are located.

* Require not less than 40 percent of the homes financed nationally and 30 percent in each State under the section 502 (single family housing) program to be for very-low-income families.

* Authorize up to $10 million for innovative demonstrations of housing and building systems that may differ from FmHA minimum property standards, while still providing adequate housing for low-income borrowers.

* Establish a new program of housing preservation grants to eligible organizations and units of government to rehabilitate single and multifamily housing.

* Set a goal of January 1, 1984, for reciprocity between HUD, VA, or FmHA under which subdivisions approved by any of these agencies would be eligible for loans from any of the three agencies without further certification.

Regulations implementing part of these changes in the housing laws went into effect October 1985.

The Emergency Agricultural Credit Act of 1984, enacted April 10, 1984, significantly changed FmHA's farm operating and emergency loan programs.

In the emergency loan program, for disasters occurring after May 30, 1983, farmers in counties bordering designated counties are eligible to apply for emergency loans and the application period is extended from 6 months to 8 months. Collateral will be based on its value the day before the emergency designation was requested by the governor or its value 1 year before the request, whichever is higher.

In the operating loan program, loan limits on new loans were raised from $100,000 to $200,000 for insured loans and from $200,000 to $400,000 for guaranteed loans.

The maximum repayment period for rescheduled or consolidated emergency and operating loans increased from 7 to 15 years from the date of the original note. A loan which is rescheduled may be changed to a limited resource loan for a qualified borrower.

In the economic emergency program, which expired September 30, 1984, $310 million was to be used for insured loans and any unused portion of the $290 million slated for guaranteed loans could be used for insured loans.

Other changes in the law include:

* Interest rates on operating, farm ownership, or emergency loans that are deferred, consolidated, rescheduled or reamortized, to be set at the original rate or the current rate, whichever is lower.

* Requiring 20 percent of operating and farm ownership funds to be allotted to limited resource borrowers. States unable to meet the goal may use any remaining funds for regular operating loans.

* Prompt notification of borrowers of limited resource loans.

* Prohibiting FmHA employees involved in the loan review process from buying land for 3 years whenever another person has applied for and been denied an FmHA loan to buy the same land.

* Permitting a study on the feasibility of a program for delinquent farm borrowers to repay their loans with earnings from timber production on land diverted from crops or pasture.

Quotas of lending to very-low and low-income families for home ownership were clarified under a supplemental appropriations bill signed July 2, 1984, and the "Housing and Community Development Technical Amendments Act of 1984," signed October 17, 1984. The housing legislation of 1983 had restricted FmHA to making at least 40 percent of such loans to people of very low income. However, so few people in that category could afford to buy homes, even with the maximum interest credit available, that service to low-income people was severely restricted. The revisions enacted in 1984 authorized the agency to lend 60 percent of its single-family housing funds to the low-income group and 40 percent to those of very low income, with each authority independent of the other.

Based on a four-person household with adjustments for family size, very low income is defined as not more than 50 percent of an area's median income. Low income is not more than 80 percent of the area's median income.

President Ronald Reagan announced a one-year Farm Credit Initiative program on September 18, 1984. This debt-restructuring plan was designed to assist farmers who were good managers, but experiencing severe financial difficulty, to remain in business and develop sound financial footing. The four initiatives provided:

1. A one-time, interest-free, debt set-aside of up to 25 percent or a maximum of $200,000 (whichever was less), of a borrower's FmHA debt, provided the set-aside resulted in a positive cash flow.

2. A five-State pilot program in which FmHA contracted with commercial and Farm Credit System lenders to service FmHA loans in order to expedite loan processing, and to determine if such a program was warranted on a nationwide basis.

3. An FmHA guarantee of 90 percent on loans made by other lenders to non-FmHA borrowers, provided the lenders agreed to write off at least 10 percent of their borrower's debt, up to the amount needed to achieve a positive cash flow.

4. FmHA contracts at the county level for farm financial and management counseling services, available to any farmer upon request.

Initiatives one and two expired on September 30, 1985, but programs under initiatives three and four were continued.

On February 6, 1985, Agriculture Secretary John R. Block announced measures to assist financially troubled farmers. They included:

* Coordination of farm credit actions by leaders of Federal and private agricultural and financial institutions.

* An interest write-down option in addition to the existing principal write-down option for guaranteed loans.

* An emergency credit assistance program for farmers whose banks have failed. For eligible operators, FmHA can provide a guarantee for new crop loans on a 1-year basis.

* Establishment of temporary FmHA offices in areas where banks have closed. The special teams identify "stranded" loans and make recommendations to reestablish a line of credit for qualified farmers.

* Assistance by State governments and local lenders, along with other USDA personnel, to help FmHA with loan processing.

* Establishment of a credit hotline in some States to provide financial information and advice to farmers.

AN UNDUPLICATED RURAL RESOURCE

FmHA programs operate as a supplement to credit made available by private lenders, not in competition with them, and as a helping hand to the capable and industrious family or community whose progress is blocked by lack of credit resources.

A family in need of farm financing, or a loan for an adequate home, may be of modest circumstances and lack credentials for conventional credit. A rural locality may be without a local lending institution, financial needs of the area may exceed the capacity of institutions that are there, or a rural community may not be able to qualify for financing through the conventional bond market.

In circumstances such as these, resources brought within reach through FmHA help to make up for shortages in local and private resources. FmHA lends money raised throughout the Nation from investors in Government securities and also guarantees loans made by city banks and other commercial lenders. In doing so, FmHA relays into the rural United States a flow of outside capital needed for farm, home, community, and rural economic development.

Historically, the availability of credit through FmHA, when none other was to be found, has enabled hundreds of thousands of farm families to keep their foothold on the land, rather than abandon farming.

Through the years, FmHA has enabled more than 1.49 million poorly housed rural families to move into adequate homes. The agency is currently helping approximately 13,000 borrowers obtain modernized central water and sewer systems.

The "supervised loan" principal adopted by the agency in its earliest years is still necessary to help borrowers achieve the purposes of their loans and to pay back what they have borrowed. Loan losses written off during the 49 years of the agency amount to less than 1 percent of principal advanced.

SOURCES OF INSURED LOAN FUNDS

FmHA loans classified as "insured" are made from three loan revolving funds. The oldest is the Agricultural Credit Insurance Fund (ACIF), established when FmHA began to make insured loans in the 1940's, and now the fund from which all farmer-program loans are made. The Rural Housing Insurance Fund (RHIF) was established with inauguration of insured rural housing loans in 1965. The Rural Development

Insurance Fund (RDIF), established under the Rural Development Act of 1972, took over from ACIF the agency's lending for water, sewer, and other community facilities, and for business and industrial development.

The revolving funds are nourished by the incoming flow of loan repayments, plus the sale of Certificates of Beneficial Ownership to the Federal Financing Bank.

Prior to 1974, investors received actual notes or other security instruments FmHA had taken from borrowers. The investor supplied to FmHA an amount equal to principal owed on the note and the agency guaranteed repayment of the investments with interest. As borrowers repaid loans, payments were made to investors and the value of the investment was reduced. Until 1970, with FmHA program levels requiring less than $1 billion a year of note marketing, sales were conducted directly from FmHA. From 1970 through 1973, as marketing requirements rose to more than $2 billion a year, the agency increased sales by marketing large blocks of notes to security dealers, who in turn sold them to trust funds and other large investors.

In 1974, FmHA discontinued the marketing of actual notes and introduced a new investment security instrument, the Certificate of Beneficial Ownership (CBO). CBO's are issued against pools of loan notes and signify that investors will share in interest earnings. Since 1977, FmHA has placed CBO's only with the Federal Financing Bank, an institution closely related to the Department of the Treasury, and has sold no CBO's to the public.

SUMMARY BY PROGRAM AREA

From the beginning of the Resettlement Administration in 1935 until the end of fiscal year 1985, a total of $133,940,860,996 was advanced or obligated in more than 9.6 million loans and grants made through FmHA and its predecessor agencies.

Program by program, the all-time totals as of September 30, 1985, are as shown on page 21.

The unpaid principal owed to FmHA on all FmHA loans as of September 30, 1985, totaled $65,100,704,000.

The annual volume of programs, making FmHA the largest Federal loan agency dealing directly with borrowers, reflects the emphasis during the 1960's and 1970's on resources for development or revival of the whole rural community. Money spent annually on programs increased from $300 million to $1.6 billion during the 1960's. Since then, the following annual levels have been recorded (in thousands):

FY 1970 --	1,639,749
FY 1971 --	2,414,316
FY 1972 --	2,789,806
FY 1973 --	3,754,934
FY 1974 --	3,601,475
FY 1975 --	5,486,089
*FY 1976 --	7,190,920
FY 1977 --	7,255,534
FY 1978 --	11,111,102
FY 1979 --	14,601,635
FY 1980 --	12,965,758
FY 1981 --	13,975,037
FY 1982 --	8,778,217
FY 1983 --	7,314,494
FY 1984 --	7,995,093
FY 1985 --	9,511,665

The downward dip between fiscal years 1973 and 1974 was attributed to an exceptionally great outlay for farm emergency loans in 1973 and a January-June moratorium on new subsidized housing that decreased the backlog of loan applications for fiscal year 1974. The high volumes from 1978 through 1981 included record levels for farm emergency, housing, community facility, and business and industrial programs.

*Includes Transition Quarter

1985's figure includes an all-time high in farm operating loans due to the administration's commitment to help financially troubled farmers continue farming.

Following are summaries of current FmHA services.

FARMER PROGRAMS

FmHA helps finance farmers who generally cannot get credit they need from other lenders at reasonable rates and terms. December 31 figures indicate FmHA held 7 percent of the total outstanding farm debt in 1978, 9.7 percent outstanding in 1979, 10.7 percent in 1980, 11.5 percent in 1981, 11 percent in 1982 and 1983, and 12.07 percent in 1984.

The average U.S. farm had real estate assets on December 31, 1984 of $297,300, down from the previous year's figure of $322,600, and $311,307 in 1980. The annual production expenses per farm currently average about $59,000. In 1984, the average U.S. farm had about $114,000 invested in machinery and other nonreal estate assets, up from $33,609 in 1970.

Farm ownership loans, insured or guaranteed, enable family-size farmers lacking other sources of credit to buy, improve, or refinance farm real estate. Family size farms operated by individuals, partnerships, cooperatives, or corporations can be considered for eligibility. Loan limits are $200,000 for insured loans and $300,000 for guaranteed loans. Farm ownership loans may be repaid in up to 40 years. The interest rate for insured loans is set periodically by the Secretary of Agriculture, based on the cost of Government borrowing. Repayment terms and interest rates are negotiated between the borrower and the lender in the case of guaranteed loans. Insured loan borrowers must refinance through conventional lenders when financially able, thereby "graduating" from FmHA credit. Loans are secured by one or more mortgages on the farm real estate.

Farm operating loans, insured or guaranteed, are usually secured by chattel mortgages on crops, livestock, machinery, or other elements of production. Family farmers and ranchers lacking other sources of production financing may be eligible. The interest rate for insured loans is set periodically, based on the cost of government borrowing. The limit is $200,000 for insured loans and $400,000 for guaranteed loans. Interest rates for guaranteed loans are negotiated between lender and borrower. Terms for operating loans usually range from 1 to 7 years, according to loan purpose, with a maximum repayment period of 15 years for consolidated or rescheduled loans. A loan which is rescheduled may be changed to a limited resource loan for a qualified borrower.

Limited resource insured farm ownership and operating loans are made to owner-operators or tenant-operators who, because of lack of experience, equipment, capital, land, adequate financing, or due to underdeveloped farms, low net income, and inadequate cash flow, need a lower interest rate to service their debts and have a reasonable chance of success.

Disaster emergency (EM) loans help farmers recover from actual production and physical losses inflicted by natural disasters such as drought, floods, and hailstorms.

To be eligible for an emergency loan, the county in which the farm is located must have been declared an emergency or major disaster area by the President, or determined to be a natural disaster area by the Secretary of Agriculture, or in some cases, by the FmHA Administrator. The FmHA Administrator can make the determination for severe physical loss loans only. Farmers in counties contiguous to a designated county may also quality for EM loan assistance.

Qualified applicants unable to obtain suitable credit elsewhere may receive subsidized actual loss loans. Applicants who are able to obtain suitable credit elsewhere may receive actual loss loans at rates prevailing in the private market as determined by the Secretary of Agriculture, provided they are otherwise eligible.

Other farmer programs include insured or guaranteed loans for improvement of soil and water resources, and insured loans to Indian tribal organizations to buy privately owned land located within reservation boundaries.

Under the 1984 Farm Credit Initiatives program to help financially distressed farmers, part of a borrower's FmHA debt (up to 25 percent, to a maximum of $200,000) could be set aside for 5 years without interest if this would help restore the operation to a positive cash flow position. For non-FmHA borrowers, the agency could guarantee up to 90 percent of a loan if the lender was willing to adjust and restructure the debt. FmHA, along with commercial and Farm Credit System lenders, provided additional credit counseling and farm management guidance to any farmer requesting it.

HOUSING PROGRAMS

Housing credit was scarce in rural America until the late 1960's, and the consequences were highly visible throughout the Nation's towns and countryside. With 27 percent of the national population, rural America had 47 percent of the Nation's substandard housing. This meant that the ratio of bad housing to number of families was twice as great in rural communities as in the cities.

However, a large-scale attack on rural housing blight has been mounted by FmHA since 1965. Insured loan service comparable to Federal urban housing credit is available to rural people of low or moderate income. Over 1.1 million new or modernized family-owned homes and about 310,000 new apartment units have been built in rural communities. About one-third of the apartment projects fill the need of elderly people for low-cost rental housing.

Since 1949, FmHA has provided $47 billion for housing. During fiscal year 1985, FmHA loans and grants for $2.89 billion funded more than 66,000 living units.

Individual home ownership (Section 502) insured loans go to families of very low, low, and moderate income, including senior citizens, who need adequate housing. Maximum term for repayment is 33 years. Interest rates vary according to the cost of Government borrowing. Interest credit, which may reduce the effective interest rate to as low as 1 percent, may be available to qualified low-income borrowers.

FmHA housing credit is available to eligible applicants in rural communities with populations of less than 10,000. This credit may be available in communities between 10,000 and 20,000 if they are not contained within a Metropolitan Statistical Area (MSA), and the Secretaries of the Departments of Agriculture and Housing and Urban Development have determined that there is a serious lack of credit for low- and moderate-income households in that location.

Very-low-income homeowners may be eligible for grants or low-interest (Section 504) loans for repairs of up to $7,500 needed to remove health and safety hazards. Very-low-income elderly homeowners may be eligible for a maximum loan of $7,500, a maximum grant of $5,000, or maximum loan-grant combination of $7,500 to make necessary repairs to their homes. In order to qualify for grant assistance, applicants must be 62 years of age or older and have an income so low they cannot repay all or part of a Section 504 loan.

Rental housing (Section 515) insured loans provide modernized rental or cooperative housing for persons with low and moderate incomes and for those age 62 and older in rural communities of not more than 10,000 population. Such loans may also be available in communities between 10,000 and 20,000 population if the facility is not within an MSA. The loans are repayable in not more than 50 years. Provisions are made for interest reductions under certain circumstances, so that low-income tenants may pay a rent within their means. Rent paid by low-income tenants also can be supplemented through a rental assistance program administered by FmHA or HUD's section 8 rent subsidy program.

Mutual self-help housing loans are made to low-income families who wish to work together to build their own homes with financial and technical assistance from FmHA.

Specialized housing programs include loans and grants for development of adequate farm labor housing, grants to qualified organizations to help low-income families accomplish "self-help" home-building projects, 2-year loans to nonprofit organizations to develop rural homesites, and home weatherizing improvements with simplified financing through FmHA and rural electric cooperatives or other utility companies.

COMMUNITY PROGRAMS

Water and waste disposal program -- FmHA and its predecessor agencies have financed approximately 13,195 water and waste disposal systems in rural areas and towns of up to 10,000 people. Public bodies, corporations operated on a nonprofit basis, and Indian tribes that are unable to obtain credit from other sources at reasonable rates and terms are eligible for assistance. Loan repayment can be scheduled for up to 40 years or the useful life of the facility. Interest rates are based on the current market yield of municipal obligations. Applicants can have the option of the interest rate in effect at the time of loan approval or closing. In some cases, grants can be made to reduce user rates to a reasonable level for farmers, ranchers, and rural residents.

Community facilities -- The Rural Development Act of 1972 extended FmHA's lending authority to include loans to public bodies or nonprofit organizations for community facilities that provide essential services to rural residents. Fire protection, community halls, hospitals, nursing homes, medical clinics, libraries, and schools are among more than 30 types of community facilities eligible for financing.

Facilities may be in the rural countryside or towns of up to 20,000 population. Loan repayment can be scheduled for up to 40 years. Interest rates are fixed for the life of the loan and are based on the current market yield for municipal obligations. Additional interest charges may apply to projects located on prime or unique farmland.

Loan applications for public safety such as rescue or fire protection facilities and equipment receive priority status for funding. Joint funding of projects with other lending sources is emphasized in order to receive maximum benefit from program sources.

Other programs -- Local costs of projects developed under the small watershed and resource conservation and development programs also may be financed through loans by FmHA to sponsoring local organizations.

BUSINESS AND INDUSTRY PROGRAMS

The business and industry (B&I) loan program was legislated in 1972 under Section 310B of the Consolidated Farm and Rural Development Act in order to encourage business and industrial development in rural areas and to create or preserve employment opportunities in these areas. The program is administered primarily as a guaranteed loan program in communities under 50,000 population, with emphasis on communities of less than 25,000.

When the program began in 1974, there was little rural business credit available. Most industries had not yet recognized the benefits of locating in rural areas and, at that time, national migration was toward larger cities. Today the situation has reversed. During the life of the program, FmHA has obligated for guarantee 7,071 business and industry loans totaling $5.67 billion. In fiscal year 1985, 54 of these loans were obligated for guarantee for $61.3 million.

Under the business and industry program, commercial loans, guaranteed up to 90 percent against loss of principal and interest, are made by lenders to individuals and corporations. The interest rate on these guaranteed loans is negotiated between the borrower and the lender. Loans may be made for improving, developing, or financing business, industry, and employment.

1985 OBLIGATIONS FOR ALL PROGRAMS

Nationwide and State totals of major FmHA loans and grants for fiscal year 1985 follow

U.S. DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION

Loans and Grants by Program -- Fiscal Year 1985

FARMER PROGRAMS:	Number of Loans or Grants	Dollar Amount
Farm Operating Loans	86,197	$ 4,706,817,519
Farm Ownership Loans	7,877	720,518,758
Emergency Loans	14,060	490,876,638
Soil and Water Loans (individual)	514	9,763,730
Indian Tribe Land Acquisition Loans	2	1,406,000
Farmer Programs, Total	108,650	$ 5,929,382,645
RURAL HOUSING PROGRAMS:		
Low-Moderate Income Housing Loans	51,962	$ 1,789,553,075
Compensation for Construction Defects (Grants)	153	526,562
Very-Low-Income Repair Loans	2,652	7,896,620
Very-Low-Income Repair Grants	3,715	12,497,648
Rural Rental Housing Loans	1,242	903,336,368
Rental Assistance Program:		
Rental Housing (14,892 units)	876	164,305,500
Labor Housing (358 units)	11	3,938,000
Farm Labor Housing Loans	117	17,588,200
Farm Labor Housing Grants	23	12,138,295
Site Loans	2	1,275,000
Self-Help Housing Grants	50	10,753,510
Housing Programs, Total	60,803	$ 2,923,808,778
COMMUNITY PROGRAMS:		
Water and Waste Disposal Development Loans	783	$ 340,000,000
Water and Waste Disposal Development Grants	366	128,988,335
Community Facility Loans	214	115,000,000
Watershed Protection and Flood Prevention Loans	3	2,233,000
Resource Conservation and Development Loans	1	500,000
Development Grants Other Than FmHA	59	10,414,933
Community Programs, Total	1,426	$ 597,136,268
BUSINESS & INDUSTRY PROGRAMS:		
Business & Industrial Loans	54	$ 61,337,500
Business/Industry Programs, Total	54	$ 61,337,500
FmHA PROGRAM TOTALS:		
Loans	165,680	$ 9,168,102,408
Grants (FmHA)	5,194	333,177,850
Other Than FmHA Grants	59	10,414,933
FmHA Program Total	170,933	$ 9,511,665,191

NOTE: All guaranteed loans based on guarantee rates.

STATISTICS ON FmHA PERFORMANCE BY FISCAL YEAR
(Dollars in Billions)

I Number of Loans and Amount Outstanding as of End of Fiscal Year: a/

	1983		1984		1985	
	Number Loans	Amount (Bil.)	Number Loans	Amount (Bil.)	Number Loans	Amount (Bil.)
Farm Operating	113,728	$ 3.5	118,572	$ 4.1	133,811	$ 6.2
Farm Emergency	116,628	9.8	125,778	10.0	121,709	9.9
Economic Emergency	62,180	4.3	60,459	4.3	56,605	4.1
Farm Ownership	123,080	6.3	124,954	6.9	126,270	7.5
RH 502/504	1,019,074	21.6	1,011,803	22.1	1,003,812	22.6
Rental Housing	9,588	5.0	10,478	5.7	10,914	6.1
Water & Waste	12,493	5.7	12,873	6.1	13,195	6.4
* All Programs	1,480,544	58.5	1,488,264	61.5	1,487,933	65.0

II Write-offs as Percent of Cumulative Advances (Insured and Direct Programs):

	1983 Sept. 30th	1984 Sept. 30th	1985 Sept. 30th
Farm Operating.......	1.2%	1.2%	1.11%
Farm Emergency:			
Total..............	.7%	.7%	.91%
Current Program....	.2%	.3%	.51%
Economic Emergency	.13%	.26%	.64%
Farm Ownership.......	.11%	.12%	.17%
RH 502/504...........	.16%	.19%	.22%
Rural Rental Housing.	.01%	.01%	.01%
Business & Industrial Loans (Insured)....	0	0	0
* All Programs.......	.6%	.5%	.62%

a/ Excludes guaranteed loans
* Includes small programs not listed, so columns do not add.
** Less than 0.05 percent.

FARMERS HOME ADMINISTRATION
Loans and Grants by Program -- All-Time Total
through September 30, 1985

	Number of Loans or Grants	Dollar Amount
FARMER PROGRAMS:		
Farm Operating Loans	2,527,334	$ 21,007,058,866
Farm Ownership Loans	404,100	11,602,291,627
Recreation Loans (individual)	463	20,527,880
Emergency Loans	1,233,514	22,679,702,908
Economic Emergency Loans	126,770	7,227,951,980
Grazing Association Loans	605	129,419,696
Soil and Water Loans (individual)	43,512	490,976,192
Irrigation and Drainage Loans	610	32,240,909
Indian Land Acquisition Loans	85	95,277,800
Farmer Programs, Total	4,336,993	$ 63,285,449,858
RURAL HOUSING PROGRAMS:		
Individual Housing Loans (502 & 504)***	1,904,750	$ 36,322,619,500
Compensation for Construction Defects (Grants)	377	1,218,006
Very-Low-Income Repair Grants	54,676	139,041,555
Rural Rental Housing Loans	19,266	8,624,183,898
Rental Assistance Program:		
Rental Housing (126,889 units)	2,605**	2,266,039,877
Labor Housing (5,415 units)	29**	102,710,804
Farm Labor Housing Loans	1,791	193,394,020
Farm Labor Housing Grants	245	174,310,865
Site Loans	173	24,519,730
Self-Help Housing Grants	507	87,791,521
Rural Housing Supervisory Assistance Grants	57	5,000,000
Housing Programs, Total	1,984,476	$ 47,940,829,776
COMMUNITY PROGRAMS:		
Water and Waste Disposal Development Loans	27,259	$ 8,806,694,844
Water and Waste Disposal Development Grants	12,984	2,776,795,821
Community Facility Loans	4,788	2,197,990,470
Industrial Development Grants	1,367	83,549,279
Watershed and Flood Prevention Loans	488	175,599,224
Resource Conservation and Development Loans	291	29,412,409
Rural Development Planning Grants (ADA)	605	19,000,000
Development Grants Other than FmHA	2,048	332,330,998
Community Programs, Total	49,830	$ 14,421,373,045
BUSINESS & INDUSTRY PROGRAMS:		
Guaranteed Business/Industrial Loans	7,071	$ 5,675,472,474
Business/Industry Programs, Total	7,071	$ 5,675,472,474
DISCONTINUED PROGRAMS:		
Emergency Livestock Loans	7,738	$ 1,045,660,130
State Corporation Farm Operating Loans	185,904	158,964,394
Rural Rehabilitation Loans	3,031,331	1,015,825,965
Economic Opportunity Loans (indiv.)	64,660	109,394,912
Economic Opportunity Loans (assn.)	1,476	21,107,481
*Recreation Association Loans	1,035	110,510,460
Rural Renewal Loans	56	6,550,300
Water Facility Loans (indiv.)	18,296	29,695,363
Water/Sewer Comprehensive Planning Grants	1,834	22,293,387
Bureau of Reclamation, Soil and Water Loans	283	4,935,550
Land Conservation and Development Loans	274	267,900
Special Impact Grants,	2	2,700,000
State Corporation Farm Ownership Loans, Agricultural Credit Corporation Loans, Resettlement Projects, Water Utilization and Construction Loans	(number not available)	****89,800,000
Total Discontinued	3,312,889	$ 2,617,705,842
GRAND TOTALS --	9,691,259	$133,940,830,995

* Recreation Assn. Loans included in Community Facility Loans since 1974.
** Data collection started in 1983.
*** Includes very-low-income repair loans.
**** Not included in Table 5 cumulative totals.

MAJOR PROGRAM TOTALS BY STATE - FISCAL YEAR 1985

(In Millions of Dollars)

	FARM PROGRAMS		HOUSING PROGRAMS		COMMUNITY SERVICE		BUSINESS & INDUSTRY		TOTAL ALL PROGRAMS	
STATE	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars
ALABAMA	1,688	$ 80.1	1,893	$ 74.5	34	$ 11.0	0	$ 0	3,615	$ 165.6
ALASKA	4	.4	219	21.2	0	0	0	0	223	21.6
ARIZONA	167	13.9	486	19.4	4	.4	0	0	657	33.7
ARKANSAS	3,192	180.0	2,014	78.7	70	22.1	1	7.5	5,277	288.3
CALIFORNIA	915	77.1	2,347	146.3	25	14.4	0	0	3,287	237.9
COLORADO	656	45.5	306	15.9	5	.7	0	0	967	62.1
CONNECTICUT	177	8.5	385	26.2	11	3.6	0	0	573	38.2
DELAWARE	85	5.5	142	7.7	3	8.0	0	0	230	21.1
FLORIDA	548	32.3	1,755	117.2	33	18.9	1	1.6	2,337	170.0
GEORGIA	1,862	115.8	919	50.5	36	12.8	0	0	2,817	179.0
HAWAII	66	5.3	629	36.4	1	.4	0	0	696	42.0

STATE	FARM PROGRAMS Number	FARM PROGRAMS Dollars	HOUSING PROGRAMS Number	HOUSING PROGRAMS Dollars	COMMUNITY SERVICE Number	COMMUNITY SERVICE Dollars	BUSINESS & INDUSTRY Number	BUSINESS & INDUSTRY Dollars	TOTAL ALL PROGRAMS Number	TOTAL ALL PROGRAMS Dollars
IDAHO	943	55.4	438	14.2	18	1.8	0	0	1,399	71.3
ILLINOIS	5,619	253.9	1,390	51.3	37	7.9	2	1.0	7,048	314.1
INDIANA	1,824	106.3	1,257	56.3	35	17.2	0	0	3,116	179.8
IOWA	10,947	710.8	827	36.3	45	9.6	0	0	11,819	756.7
KANSAS	2,900	154.2	480	20.5	18	8.7	0	0	3,398	183.5
KENTUCKY	3,004	112.1	1,897	89.9	66	33.5	0	0	4,967	235.5
LOUISIANA	4,005	213.5	1,634	88.0	33	22.8	1	1.0	5,673	324.9
MAINE	769	25.0	1,580	78.0	46	17.3	1	2.1	2,396	122.4
MARYLAND	255	10.5	594	39.5	22	18.8	0	0	871	68.8
MASSACHUSETTS	180	7.9	649	32.5	18	12.8	0	0	847	53.2
MICHIGAN	3,346	193.7	1,957	90.7	17	9.5	4	3.9	5,324	297.8
MINNESOTA	6,714	437.7	712	45.4	30	10.6	0	0	7,456	493.7
MISSISSIPPI	2,986	191.0	3,410	99.9	89	21.2	5	5.3	6,490	317.3
MISSOURI	6,175	233.8	1,424	61.3	35	14.8	6	1.1	7,640	311.0

STATE	FARM PROGRAMS		HOUSING PROGRAMS		COMMUNITY SERVICE		BUSINESS & INDUSTRY		TOTAL ALL PROGRAMS	
	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars
MONTANA	1,990	109.3	306	14.8	11	2.2	0	0	2,307	126.3
NEBRASKA	5,481	351.1	358	14.9	10	1.5	0	0	5,849	367.0
NEVADA	78	3.7	82	7.3	2	2.7	0	0	162	13.7
NEW HAMPSHIRE	82	2.9	626	32.6	9	4.1	0	0	717	39.6
NEW JERSEY	208	10.3	730	37.1	8	4.8	0	0	946	52.2
NEW MEXICO	487	30.5	662	26.3	6	.2	0	0	1,155	57.0
NEW YORK	1,750	74.0	2,075	106.8	47	20.4	2	2.4	3,874	203.6
NORTH CAR.	2,860	108.9	2,747	116.1	62	37.4	5	5.4	5,674	267.7
NORTH DAKOTA	4,085	207.9	360	14.0	12	2.7	0	0	4,457	224.5
OHIO	2m248	145.5	1,725	83.3	54	21.2	7	4.6	4,034	254.6
OKLAHOMA	2,989	193.9	873	44.5	59	10.1	0	0	3,921	248.6
OREGON	513	38.0	634	30.1	21	8.5	0	0	1,168	76.7
PENNSYLVANIA	1,077	41.8	2,339	109.7	42	.1	0	0	3,458	177.6
RHODE ISLAND	23	.7	179	9.9	4	.9	0	0	206	11.7

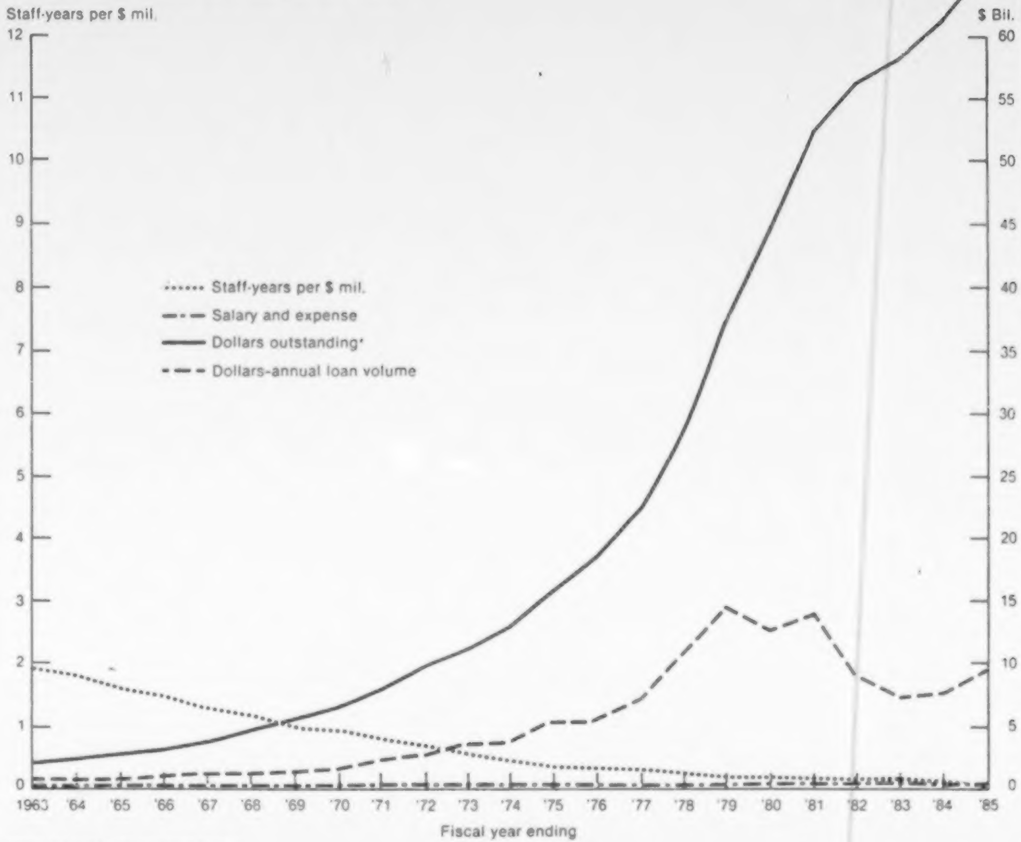
	FARM PROGRAMS		HOUSING PROGRAMS		COMMUNITY SERVICE		BUSINESS & INDUSTRY		TOTAL ALL PROGRAMS	
STATE	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars
SOUTH CAR.	1,164	64.5	1,786	79.3	40	21.4	3	2.4	2,993	167.6
SOUTH DAKOTA	4,862	223.7	229	9.4	16	3.9	0	0	5,107	237.0
TENNESSEE	2,503	107.6	2,503	99.6	68	21.3	1	.9	5,075	229.3
TEXAS	8,518	453.6	2,165	104.2	63	34.8	7	7.8	10,753	600.5
UTAH	345	16.0	420	15.4	7	1.4	0	0	772	32.9
VERMONT	441	12.1	587	24.8	2	.3	0	0	1,030	37.1
VIRGINIA	908	39.8	1,588	62.6	34	20.7	0	0	2,530	123.1
WASHINGTON	669	42.2	992	60.4	19	4.6	0	0	1,680	107.2
WEST VIRGINIA	421	11.3	901	38.9	33	11.9	5	3.9	1,360	65.9
WISCONSIN	4,924	327.5	1,464	70.9	31	7.5	2	4.5	6.421	410.4
WYOMING	373	25.4	267	13.4	2	.9	0	0	642	39.8
PUERTO RICO	616	15.2	2,665	99.6	28	11.7	1	6.0	3,310	132.5

	FARM PROGRAMS		HOUSING PROGRAMS		COMMUNITY SERVICE		BUSINESS & INDUSTRY		TOTAL ALL PROGRAMS	
STATE	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars
VIRGIN ISLANDS	5	.2	57	3.7	0	0	0	0	62	3.9
WEST PACIFIC TERRITORIES	1	.04	1,098	25.4	4	15.1	0	0	1,103	40.5
TOTALS	108,650	5,929.4	60,803	2,923.8	1,426	597.1	54	61.3	170,933	9,511.7

(Totals may not add due to rounding.)

Figure 1

Loan and Grant Volume and Staff Productivity



*Does not include "guaranteed loans."

Table 1--Loan and grant volume and staff productivity

	*Principal dollars outstanding, end of fiscal year (Billions)	Annual loan and grant volume (Billions)	Total dollars (Billions)	Total staff years	Salaries and expenses (Millions)	Dollars for which one person is responsible (Millions)	Number of staff years for loan processing and servicing per million dollars
1965	2.753	.800	3.553	5,858.0	49.563	.607	1.6
1966	3.221	1.088	4.309	6,590.1	57.826	.654	1.5
1967	3.914	1.390	5.304	7,102.5	62.214	.747	1.3
1968	4.778	1.359	6.137	7,360.1	67.861	.834	1.2
1969	5.552	1.431	6.983	7,271.7	72.354	.960	1.0
1970	6.525	1.639	8.164	7,662.7	86.159	1.065	.94
1971	7.869	2.414	10.283	8,533.9	103.422	1.205	.83
1972	9.622	2.789	12.411	8,865.9	113.888	1.400	.71
1973	11.206	3.750	14.956	8,672.0	121.766	1.725	.58
1974	12.977	3.591	16.568	8,168.4	128.724	2.029	.49
1975	15.863	5.466	21.302	8,359.0	142.828	2.548	.39
1976	18.456	5.393	23.849	8,555.4	158.692	2.788	.36
1977	22.526	7.236	29.762	9,405.4	187.959	3.164	.32
1978	28.712	11.089	40.428	10,233.0	227.867	3.952	.26
1979	37.304	14.672	51.976	10,842.0	254.517	4.794	.21
1980	44.630	12.966	57.596	11,813.0	288.321	4.876	.21
1981	52.470	13.975	66.445	12,541.0	322.748	5.298	.19
1982	56.213	8.778	64.975	11,213.0	327.231	5.795	.17
1983	58.514	7.314	65.828	11,566.0	356.595	5.692	.18
1984	61.548	7.995	69.543	12,658.0	390.661	5.494	.18
1985	65.100	9.511	74.610	12,563.0	412.724	5.940	.17

* Does not include guaranteed loans.

Figure 2

Repayments, Charge-Offs, Judgments, and Interest Payments

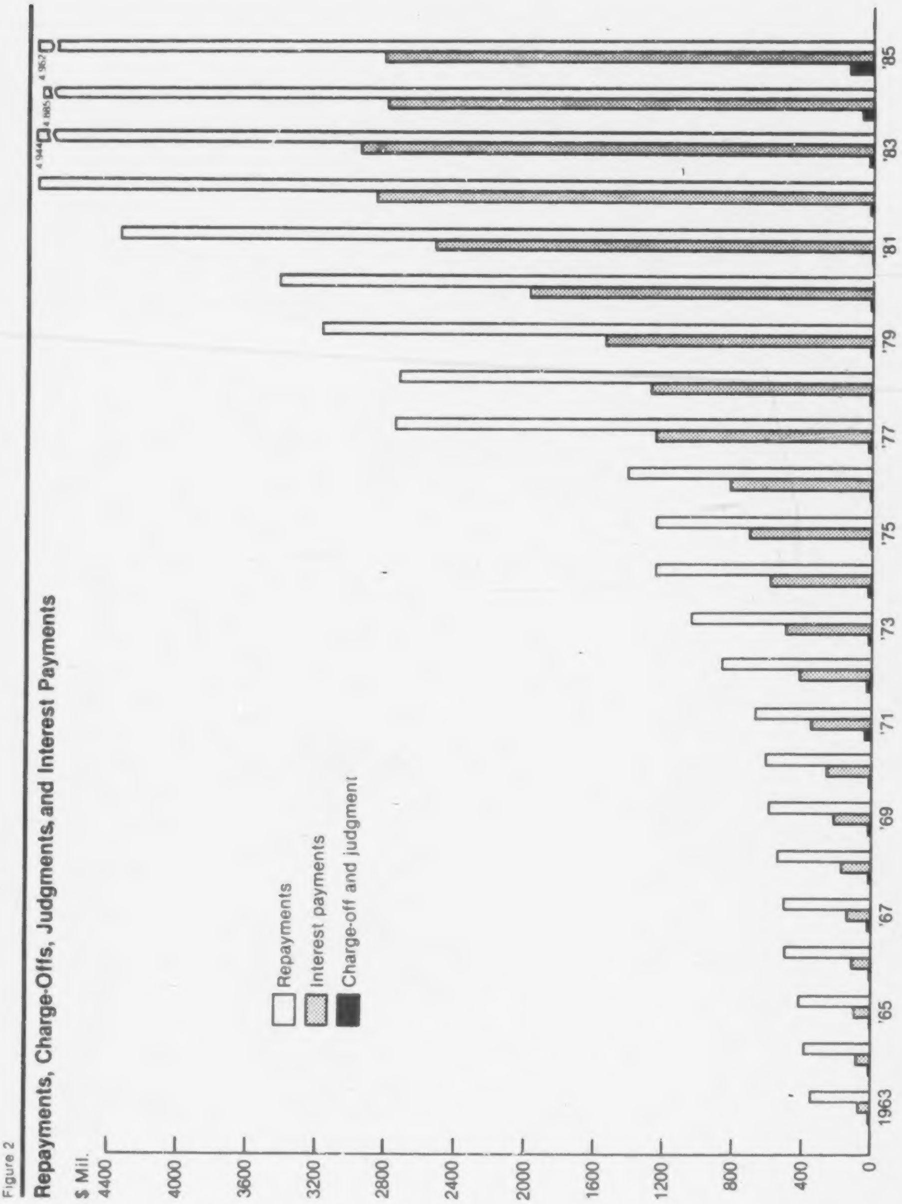
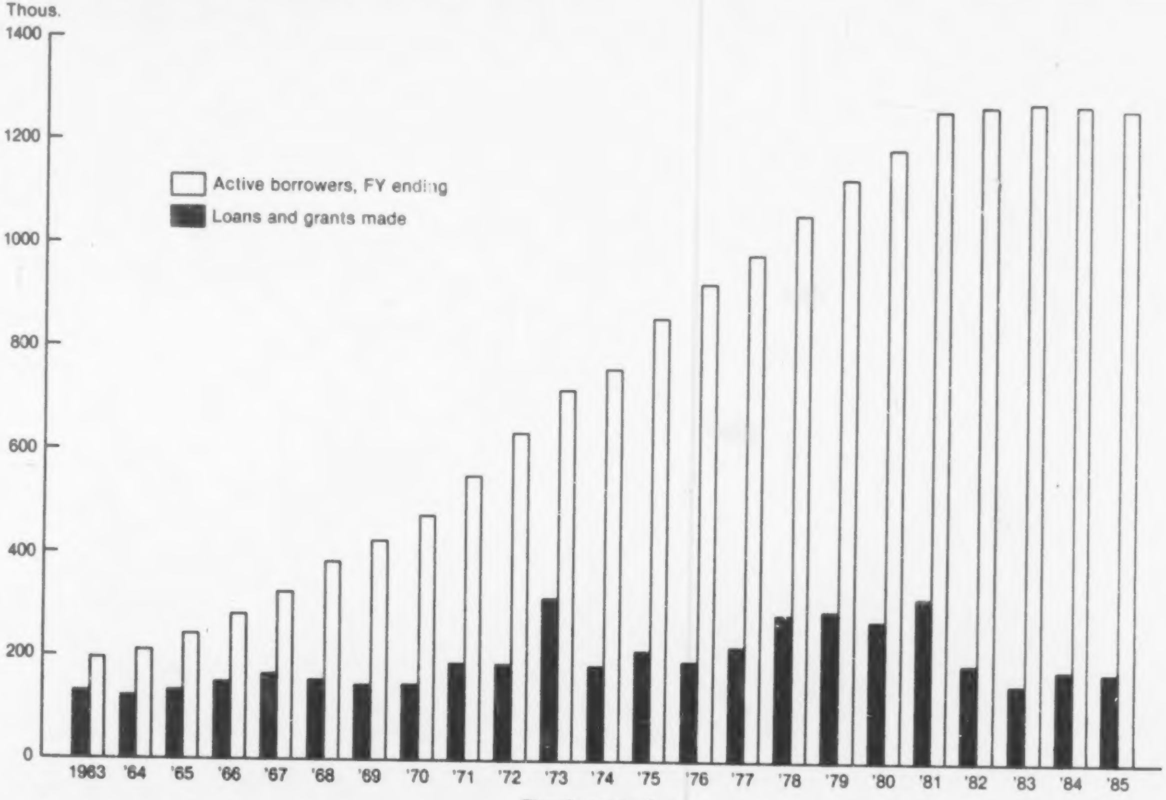


Table 2--Report of loan collection and debt adjustment activities during the year

Fiscal year	Principal repayments (Millions)	Principal charge offs and judgments (Millions)	Interest payments (Millions)
1965	413.7	4.8	99.7
1966	502.6	4.9	118.6
1967	503.4	17.9	145.7
1968	539.9	12.5	182.6
1969	599.2	16.1	222.9
1970	610.5	13.7	259.1
1971	671.6	33.8	344.8
1972	859.2	26.3	415.4
1973	1,045.0	19.7	497.9
1974	1,247.1	22.2	589.2
1975	1,244.2	18.5	704.1
1976	1,404.5	9.2	824.6
1977	2,753.6	21.9	1,251.7
1978	2,725.5	14.3	1,268.3
1979	3,173.3	16.5	1,543.1
1980	3,418.9	15.6	1,983.3
1981	4,325.4	6.9	2,522.6
1982	4,838.2	29.8	2,873.1
1983	4,943.8	43.3	2,960.5
1984	4,885.6	64.6	2,971.4
1985	4,961.9	141.8	2,828.9

Figure 3

Total Active Borrowers; Annual Loans Made



*Guaranteed Loans not included. **Estimated.

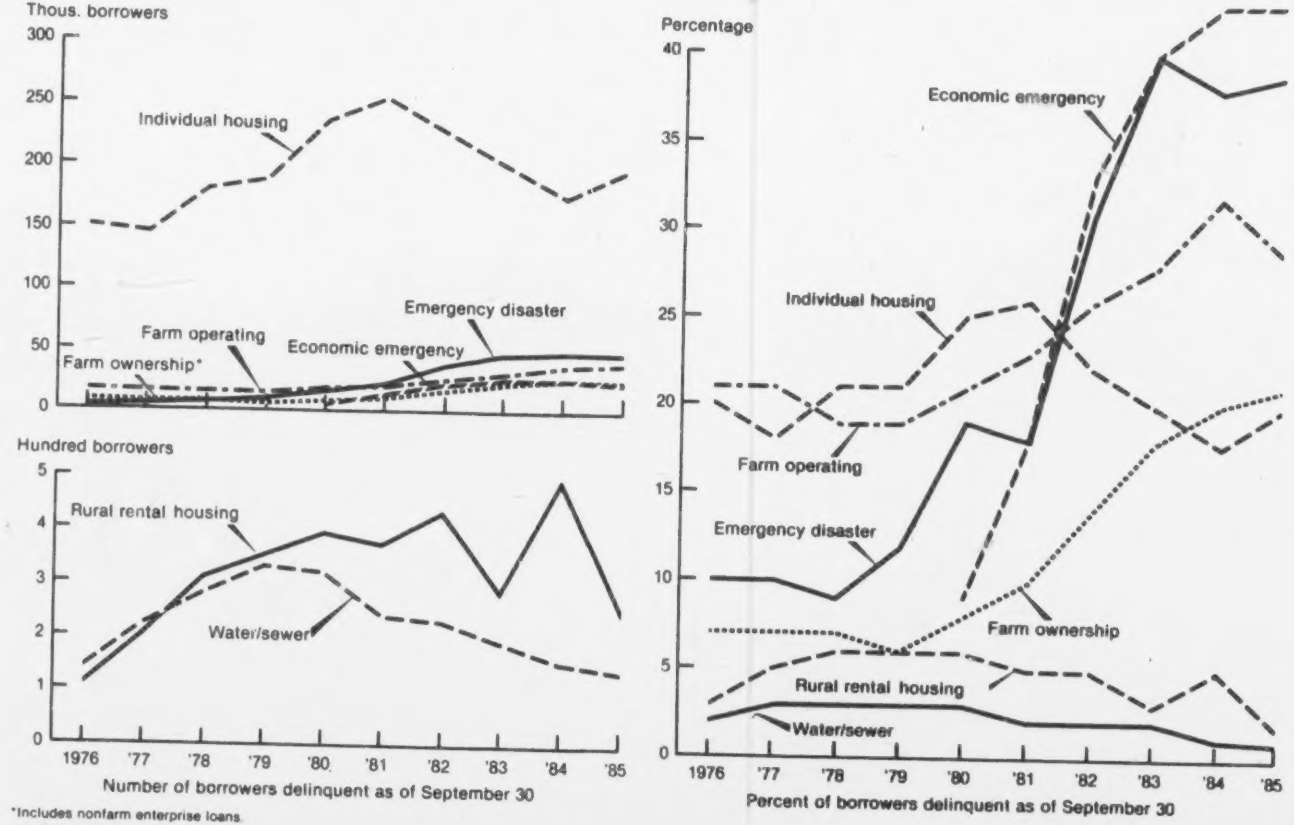
Table 3--FmHA statistics

	Number of active borrowers as of end of fiscal year*			Total number of loans and grants made
	Indiv.	Assoc.	Total	
1965	241,790	1,265	243,055	138,020
1966	280,098	2,302	282,400	155,889
1967	324,418	3,909	328,327	169,630
1968	377,857	5,088	382,945	155,521
1969	418,167	6,233	424,400	148,414
1970	470,267	6,973	477,240	149,407
1971	548,143	7,556	555,699	191,913
1972	627,744	8,151	635,895	190,188
1973	710,980	8,705	719,653	318,587
1974	750,421	9,000	759,421	189,437
1975	844,527	9,997	854,524	216,852
1976	908,723	11,317	920,040	197,949
1977	967,066	12,945	980,011	222,684
1978	1,040,207	14,412	1,054,619	283,696
1979	1,108,353	16,173	1,124,526	294,890
1980	1,167,006	18,235	1,185,241	274,990
1981	1,228,277	19,929	1,248,206	319,045
1982	1,250,433	21,834	1,272,206	190,555
1983	1,252,449	23,271	1,275,720	153,561
1984	1,250,340	24,658	1,274,998	175,895
1985	1,245,512	12,906	1,270,350	170,933

* Guaranteed loans not included.

Figure 4

Major FmHA Programs



*Includes nonfarm enterprise loans.

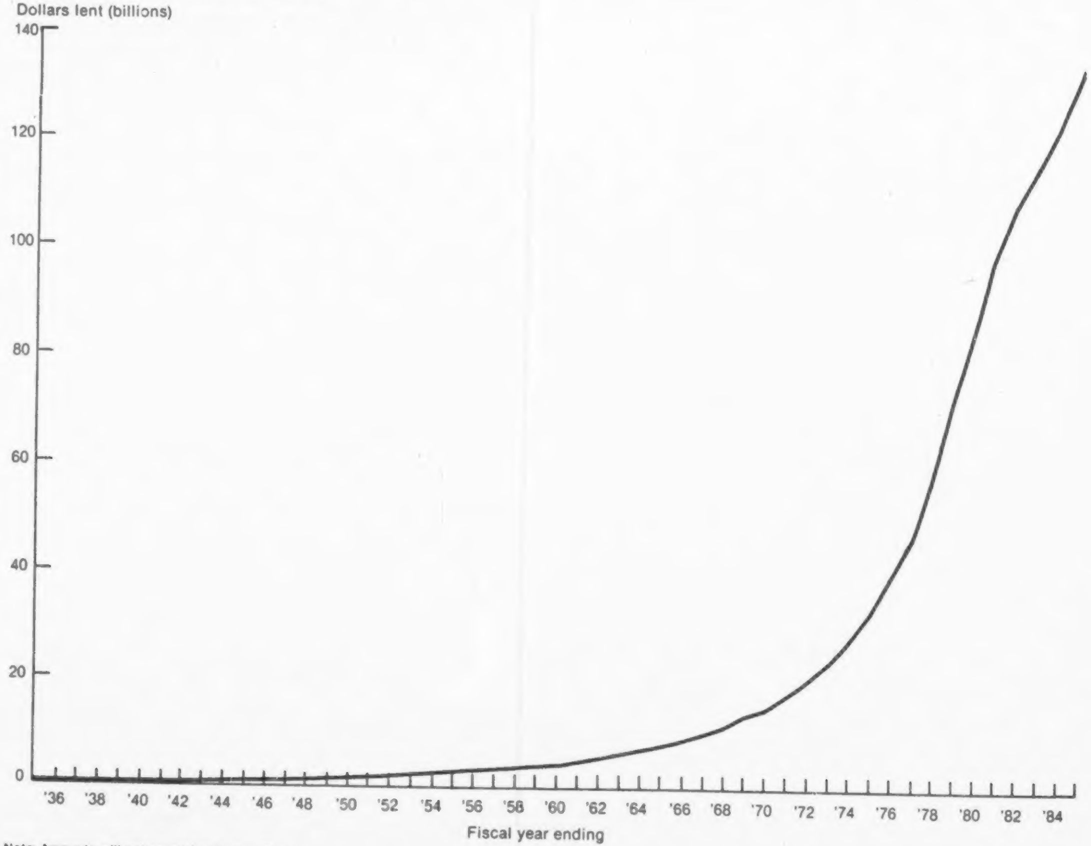
Table 4--Borrowers delinquent, major loan programs, by number and percentage as of September 30

	1978		1979		1980		1981		1982		1983		1984		1985	
Program	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Farm Ownership*	7,741	7	6,936	6	9,209	8	11,711	10	17,068	14	22,090	18	25,595	20	26,352	21
Farm Operating	15,247	19	15,020	19	18,248	21	21,442	23	26,511	26	31,355	28	37,286	31	38,385	29
Emergency Disaster	7,620	9	10,934	12	17,296	19	22,338	18	38,556	31	46,714	40	48,172	38	47,276	39
Economic Emergency	--	--	--	--	5,560	9	12,509	18	21,514	33	25,049	40	25,768	43	24,245	43
Individual Housing	179,526	21	187,094	21	235,406	25	253,986	26	226,550	22	201,902	20	185,853	18	197,708	20
Rural Rental Housing	311	6	352	6	393	6	373	5	434	5	288	3	495	5	256	2
Water and Waste Disposal	287	3	333	3	321	3	243	2	232	2	192	2	158	1	141	1

* Includes nonfarm enterprise loans.

Figure 5

Cumulative Dollars Lent, Grants Administered



Note: Amounts will not equal due to rounding.

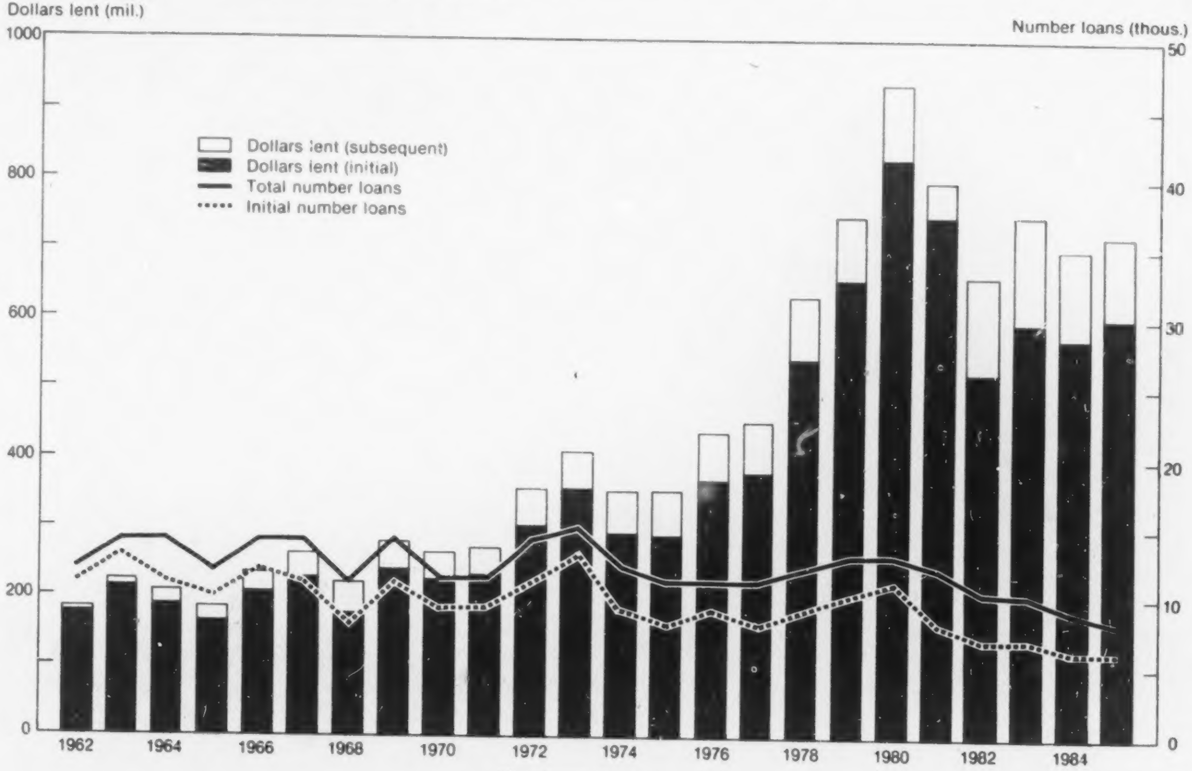
Table 5--Dollars loaned and grants administered (cumulative)

	Farm (Thousands)	Housing (Thousands)	Community (Thousands)	Total dollars* (Thousands)
1935	676			676
1936	76,964			76,964
1937	152,466			152,466
1938	232,770			232,770
1939	376,552			376,552
1940	511,576		2	511,578
1941	677,655		56	677,711
1942	854,019		134	854,153
1943	988,046		149	988,195
1944	1,082,514		149	1,082,663
1945	1,167,454		232	1,167,686
1946	1,295,580		381	1,295,961
1947	1,445,061		501	1,445,562
1948	1,528,128		661	1,528,789
1949	1,646,632		754	1,647,386
1950	1,809,284	18,161	1,013	1,828,457
1951	1,961,699	42,253	1,563	2,005,515
1952	2,152,421	63,408	1,961	2,217,789
1953	2,360,918	82,765	2,800	2,446,484
1954	2,636,422	98,833	3,676	2,738,932
1955	2,928,478	98,833	4,863	3,032,174
1956	3,231,423	102,554	5,835	3,339,812
1957	3,565,721	123,845	6,542	3,696,108
1958	3,861,819	156,911	7,540	4,026,270
1959	4,159,454	217,585	10,859	4,387,899
1960	4,426,742	258,321	11,707	4,696,771
1961	4,746,439	328,662	17,353	5,092,454
1962	5,273,854	425,160	30,856	5,729,870
1963	5,864,145	612,900	49,010	6,526,054
1964	6,428,571	750,243	95,034	7,273,848
1965	7,026,754	885,206	161,965	8,073,925
1966	7,692,062	1,153,755	316,793	9,162,610
1967	8,402,694	1,596,875	554,130	10,553,698
1968	9,040,063	2,089,911	781,816	11,911,789
1969	9,740,957	2,602,000	1,000,757	13,343,714
1970	10,383,687	3,395,835	1,203,942	14,983,463
1971	11,079,895	4,794,932	1,522,952	17,397,779
1972	11,898,367	6,413,709	1,875,510	20,187,585
1973	13,330,329	8,277,018	2,335,172	23,942,520
1974	14,353,648	10,070,346	3,120,000	27,543,994
1975	16,362,179	12,315,226	4,352,679	33,030,084
1976	18,187,039	14,840,862	5,412,773	38,440,675
1976 + TQ	18,561,883	15,751,596	5,907,085	40,220,565
1977	20,994,914	18,897,401	7,583,784	47,476,099
1978	25,990,776	22,658,749	9,937,676	58,587,201
1979	33,696,244	26,945,340	12,547,252	73,188,836
1980	40,045,519	31,166,003	15,065,002	86,276,524
1981	48,119,358	35,109,573	17,022,630	100,251,561
1982	52,233,221	38,995,501	17,801,056	109,029,778
1983	55,303,948	42,102,223	18,938,102	116,344,273
1984	59,741,919	45,017,021	19,580,426	124,339,366
1985	65,671,302	47,940,860	20,238,900	133,851,061

Figures do not include $89,800,000 for certain discontinued programs listed on page 21 for all-time totals.

Figure 6

Farm Ownership Loans, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan costs.

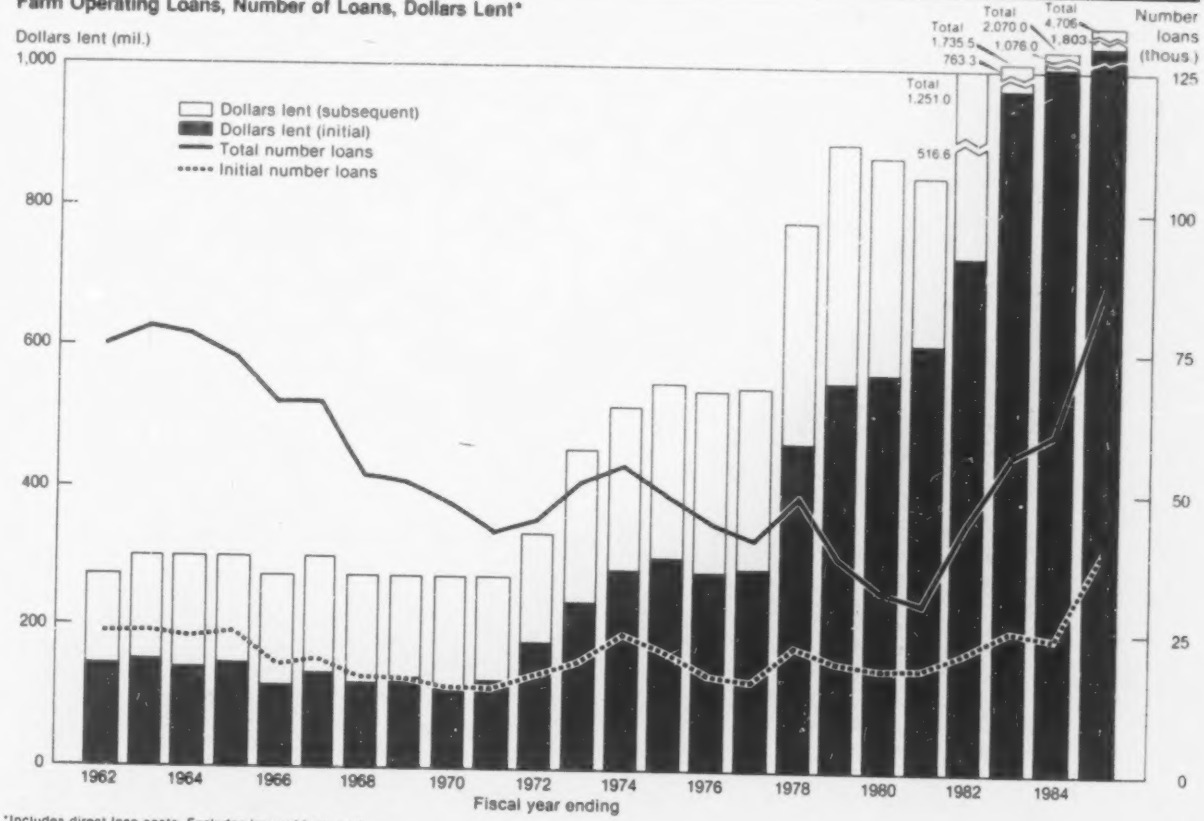
Table 6--Farm ownership loan program:
Number of loans and dollars lent*

	Initial loans		Subsequent loans		Total loans	
	Number	Amount	Number	Amount	Number	Amount
1965	9,885	162,295,970	2,301	20,295,320	12,186	182,591,290
1966	11,532	205,806,910	2,747	27,430,513	14,279	223,237,423
1967	11,101	226,587,210	2,886	33,412,389	13,987	259,999,599
1968	8,403	176,289,150	2,411	28,709,744	10,814	204,998,894
1969	10,525	237,047,040	3,177	40,073,052	13,702	277,120,092
1970	8,644	222,949,520	2,841	38,547,055	11,491	261,496,575
1971	8,522	230,560,910	2,434	37,875,258	10,956	268,436,168
1972	10,718	302,220,690	3,037	53,541,329	13,755	355,762,019
1973	12,593	356,058,150	2,899	52,059,220	15,492	408,117,370
1974	8,728	291,482,260	3,269	60,679,170	11,997	352,161,430
1975	7,550	286,608,341	3,048	65,024,420	10,598	351,632,761
1976	8,583	367,204,570	2,788	67,800,228	11,371	435,004,798
1977	8,353	378,916,850	2,769	72,323,130	11,122	451,239,980
1978	9,384	474,266,230	2,631	76,580,270	12,015	550,846,500
1979	10,179	667,699,570	2,389	95,465,200	12,568	768,164,770
1980	10,616	842,738,150	2,356	111,313,930	12,972	954,052,080
1981	9,014	588,163,820	2,839	125,121,290	11,853	813,285,110
1982	6,821	520,994,148	3,409	140,609,190	10,230	661,603,338
1983	6,902	593,863,120	3,296	155,716,260	10,198	749,579,380
1984	6,140	574,859,470	2,577	125,836,390	8,717	700,695,860
1985	5,826	605,723,184	2,051	114,795,574	7,877	720,518,758

* Includes direct loan costs.
Excludes insured loan costs.

Figure 7

Farm Operating Loans, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan cost.

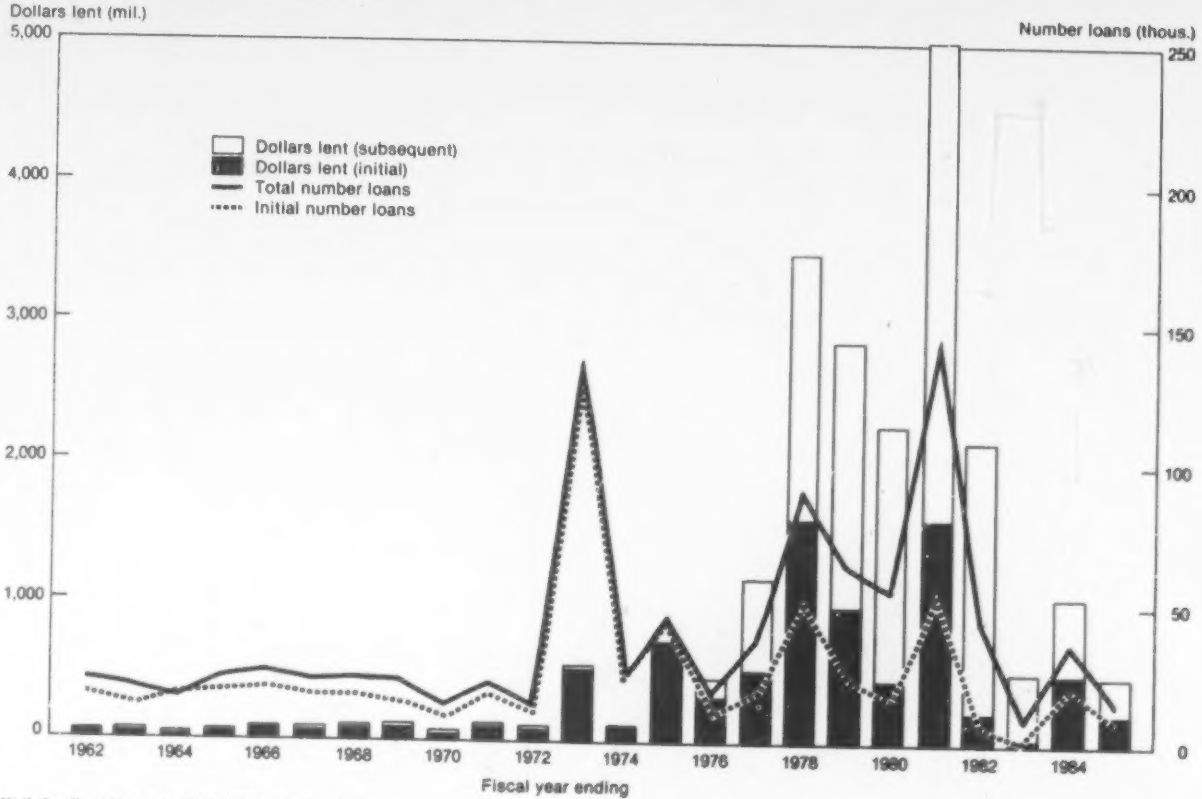
Table 7--Farm operating loan program:
Number of loans and dollars lent*

	Initial loans		Subsequent loans		Total loans	
	Number	Amount	Number	Amount	Number	Amount
1965	24,127	146,510,340	48,470	153,489,660	72,597	300,000,000
1966	18,255	115,620,870	46,488	159,379,130	64,743	275,000,000
1967	18,893	131,918,850	46,006	168,081,150	64,899	300,000,000
1968	15,784	119,917,490	36,537	155,082,510	52,321	275,000,000
1969	16,234	127,094,340	34,577	147,905,630	50,811	274,999,970
1970	14,247	114,416,920	32,410	160,583,048	46,657	274,999,968
1971	13,635	125,499,360	28,545	149,500,631	42,180	274,999,991
1972	16,649	181,229,350	27,196	156,056,468	43,845	337,285,818
1973	19,172	237,329,750	31,808	217,314,627	50,980	454,644,377
1974	23,965	282,416,201	29,900	242,577,627	53,865	524,993,821
1975	20,560	302,266,678	28,694	248,520,072	49,254	550,786,750
1976	17,172	279,529,768	26,876	259,687,665	44,048	539,217,433
1977	15,709	283,770,260	24,830	258,573,030	40,539	542,343,290
1978	22,176	466,642,040	27,238	313,985,760	49,414	780,627,800
1979	19,079	552,541,730	18,863	342,212,170	37,942	894,753,900
1980	17,568	565,596,300	14,643	309,232,700	32,211	874,829,000
1981	18,157	605,727,550	11,681	241,875,810	29,838	847,603,360
1982	21,310	734,338,846	23,609	516,669,953	44,919	1,251,008,799
1983	25,108	972,214,470	31,452	763,332,830	56,560	1,735,547,300
1984	24,679	1,076,177,210	35,488	994,976,830	60,167	2,071,154,040
1985	39,081	2,903,823,556	47,116	1,802,993,963	86,197	4,706,817,519

* Includes direct loan costs.
Excludes insured loan costs.

Figure 8

Emergency Loans, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan cost.

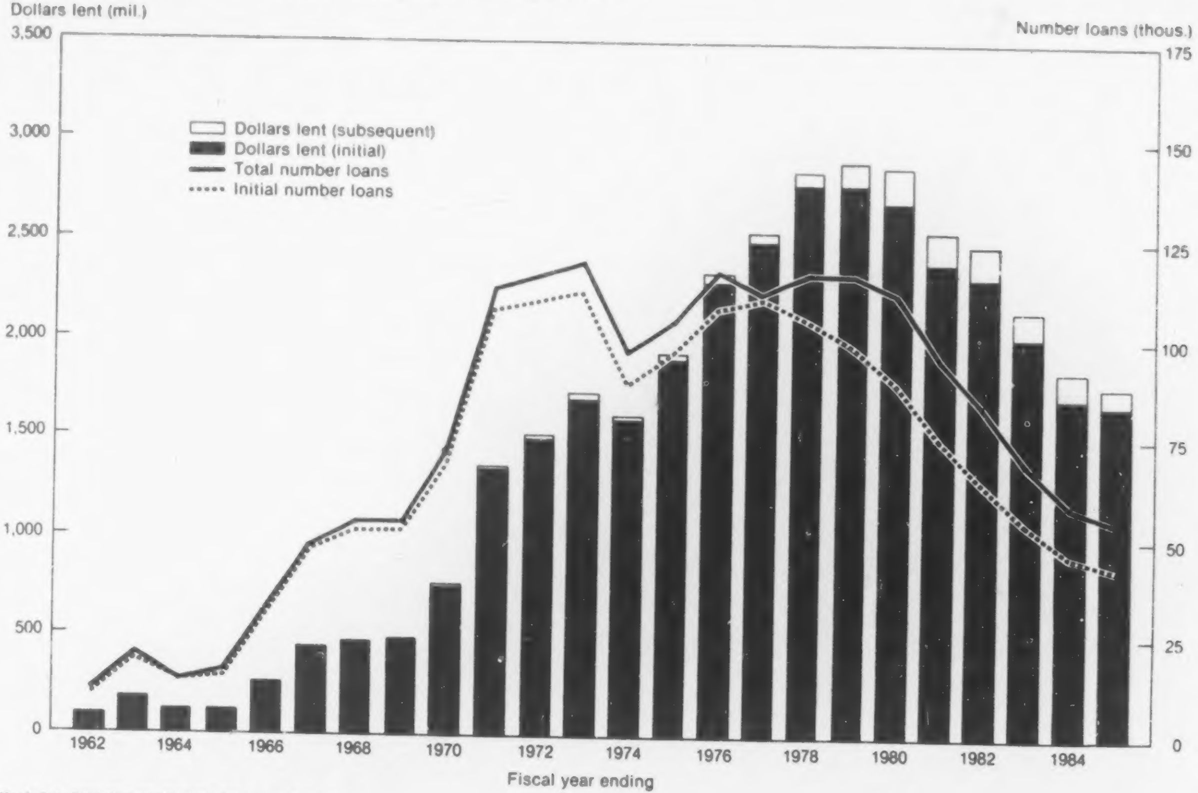
Table 8---Emergency loan program:
Number of loans and dollars lent*

	Initial loans		Subsequent loans		Total loans	
	Number	Amount	Number	Amount	Number	Amount
1965	16,743	60,183,375	5,547	18,263,786	22,290	78,447,161
1966	18,273	77,420,090	6,098	23,069,241	24,371	100,489,331
1967	15,765	66,425,255	6,409	28,197,013	22,174	94,622,268
1968	16,124	77,528,270	6,104	30,646,155	22,228	108,174,425
1969	13,509	75,427,940	7,177	39,288,213	20,686	114,716,153
1970	7,800	56,364,080	4,978	33,066,080	12,778	89,430,160
1971	16,025	101,216,425	3,779	26,419,481	19,804	127,635,906
1972	9,716	83,420,630	3,263	25,491,179	12,979	108,911,809
1973	124,783	527,727,353	3,884	30,039,242	128,667	557,766,595
1974	22,016	117,361,657	418	10,975,112	22,434	128,336,769
1975	42,976	722,263,783	699	12,756,754	43,675	735,020,537
1976	11,880	321,395,514	4,998	156,316,305	16,878	447,711,819
1977	16,666	515,709,080	19,103	662,678,900	35,769	1,178,387,980
1978	48,166	1,558,223,570	40,953	1,853,584,630	89,119	3,411,808,200
1979	24,838	970,026,080	38,075	1,901,615,680	62,913	2,871,641,760
1980	16,127	473,962,490	38,267	1,792,927,830	54,394	2,266,890,320
1981	51,871	1,550,820,070	87,119	3,561,470,360	138,990	5,112,290,430
1982	6,101	222,528,630	36,762	1,950,883,570	42,863	2,173,412,200
1983	1,027	43,478,210	7,744	522,459,290	8,771	565,937,500
1984	20,437	499,991,230	14,560	551,635,930	34,997	1,051,627,160
1985	8,010	261,187,150	6,050	229,689,488	14,060	,638

* Includes direct loan costs.
Excludes insured loan costs.

Figure 9

Rural Housing Loans to Individuals, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan cost.

Table 9--Rural housing 502 and 504 loans to individuals:
Number of loans and dollars lent*

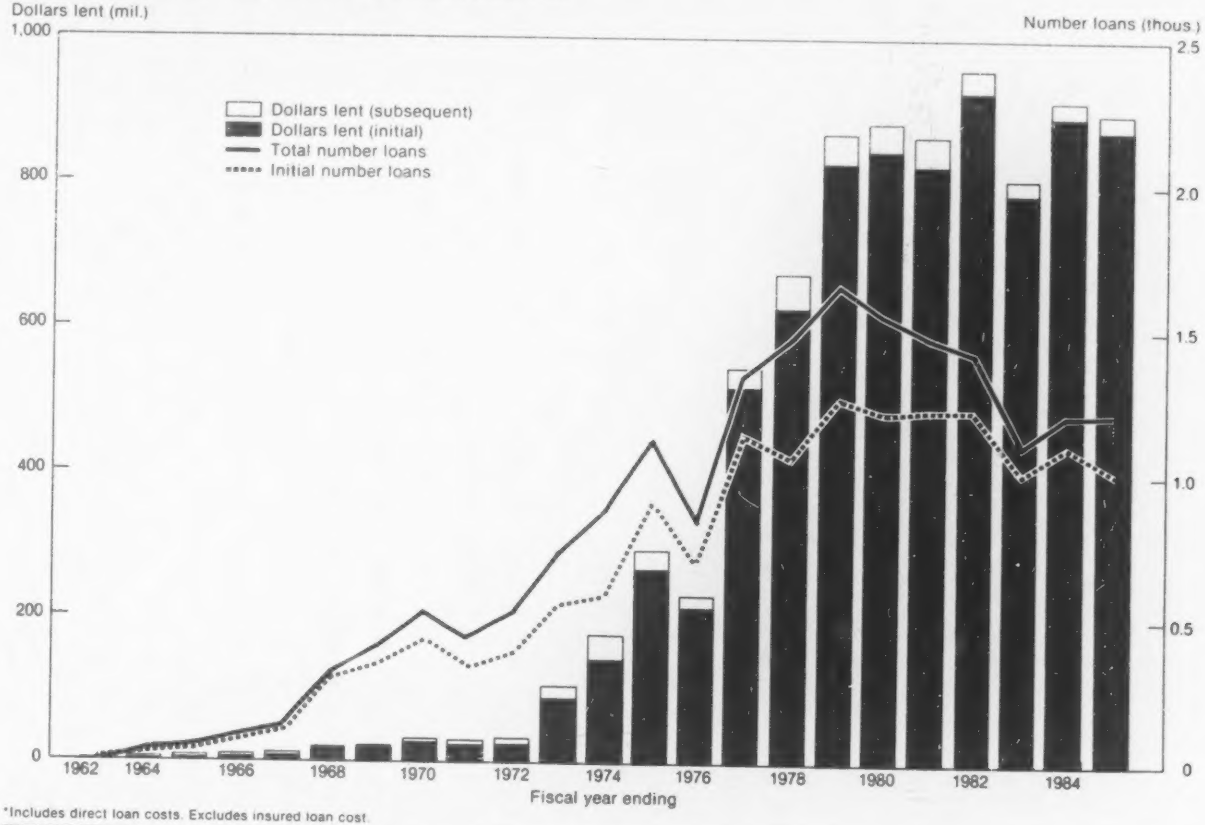
	Initial loans		Subsequent loans		Total loans	
	Number	Amount	Number	Amount	Number	Amount
1965	15,177	129,343,600	591	1,632,387	15,768	130,975,987
1966	30,908	255,558,560	1,121	3,061,551	32,029	258,620,111
1967	46,879	425,604,835	1,558	4,527,934	48,437	430,132,769
1968	51,970	468,185,434	2,357	5,479,564	54,327	437,664,998
1969	51,560	480,363,630	2,878	5,857,314	54,438	486,220,944
1970	69,423	750,919,400	3,928	10,677,131	73,351	761,596,531
1971	108,188	1,353,830,290	5,276	13,937,662	113,464	1,376,767,952
1972	110,097	1,549,571,250	5,888	17,048,825	115,985	1,566,620,075
1973	111,779	1,712,380,440	8,004	27,875,832	119,783	1,740,256,272
1974	88,728	1,569,628,860	8,278	24,684,069	97,006	1,594,312,929
1975	96,688	1,903,281,940	8,382	28,169,930	105,070	1,931,451,870
1976	107,514	2,256,680,464	9,544	35,892,200	117,058	2,292,572,664
1977	110,543	2,528,014,600	11,534	48,612,460	122,136**	2,576,675,030**
1978	104,869	2,778,813,490	12,000	56,578,350	117,382**	2,703,242,438**
1979	98,987	2,778,813,490	17,423	114,040,970	117,206**	2,893,558,790**
1980	89,181	2,687,208,580	21,709	178,072,090	112,391**	2,866,530,690**
1981	75,002	2,446,551,790	18,212	160,648,300	94,895**	2,608,876,334**
1982	64,728	2,323,295,534	17,319	163,164,721	83,614**	2,488,262,514**
1983	53,913	2,013,224,690	13,842	130,977,150	68,727**	2,145,352,859**
1984	45,536	1,729,388,690	12,950	121,821,120	58,486	1,851,309,810
1985	43,116	1,695,400,169	11,498	102,049,526	54,614	1,797,449,695

* Includes direct loan costs, excludes insured loan cost.

** Includes 59 weatherization loans for 47,970 in FY 1977.
Includes 513 weatherization loans for 447,828 in FY 1978.
Includes 796 weatherization loans for 704,330 in FY 1979.
Includes 1,501 weatherization loans for 1,250,020 in FY 1980.
Includes 1,681 weatherization loans for 1,676,244 in FY 1981.
Includes 1,567 weatherization loans for 1,802,259 in FY 1982.
Includes 972 weatherization loans for 1,151,019 in FY 1983.

Figure 10

Rural Rental Housing Loans, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan cost.

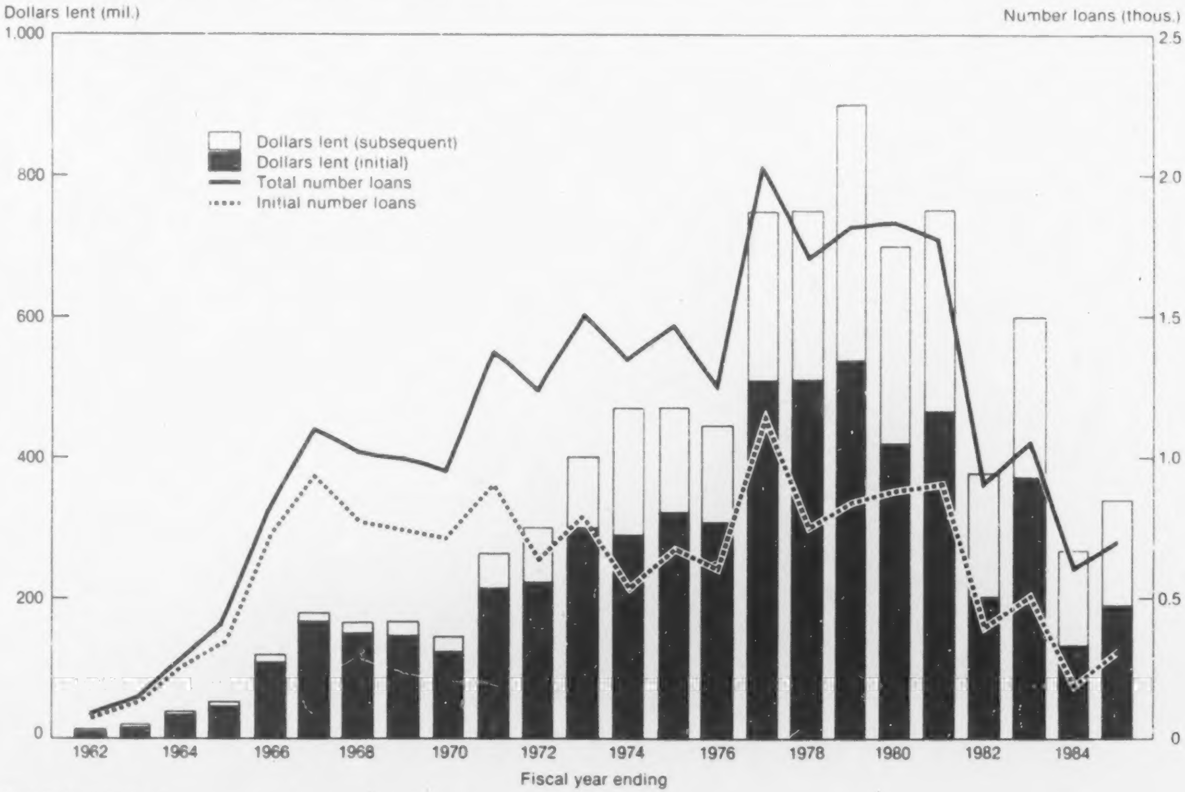
Table 10--Rural rental housing program:
Number of loans and dollars lent*

	Initial loans		Subsequent loans		Total loans	
	Number	Amount	Number	Amount	Number	Amount
1965	32	1,787,530	3	230,000	35	2,017,530
1966	76	4,165,770	5	141,400	81	4,307,170
1967	99	5,314,350	11	175,380	110	5,489,730
1968	276	12,427,010	21	748,890	297	13,175,900
1969	329	15,351,280	61	1,983,220	390	17,334,500
1970	412	24,148,230	98	4,292,510	510	28,440,740
1971	325	21,012,400	97	5,776,290	422	26,788,690
1972	372	21,502,910	143	8,614,970	515	40,117,880
1973	546	87,886,880	184	17,175,750	730	105,062,630
1974	562	140,663,110	317	32,650,920	879	173,314,030
1975	903	267,036,590	205	25,319,750	1,153	292,356,340
1976	685	213,992,470	153	17,209,680	838	231,202,150
1977	1,114	518,017,210	222	26,936,970	1,336	544,954.180
1978	1,056	627,442,260	410	48,502,290	1,466	675,944,550
1979	1,247	827,894,470	398	41,614,090	1,645	869,508,560
1980	1,204	841,524,090	335	39,812,050	1,539	881,336,140
1981	1,213	825,921,420	253	38,843,810	1,466	864,765,230
1982	1,220	928,339,980	208	25,327,740	1,428	953,667,720
1983	1,043	783,730,240	152	18,267,160	1,195	801,997,400
1984	1,109	897,327,330	155	21,674,680	1,264	919,002,010
1985	1,085	880,801,618	156	22,534,750	1,242	903,336,368

* Includes direct loan costs.
Excludes insured loan cost.

Figure 11

Water Waste Disposal Loans, Number of Loans, Dollars Lent*



*Includes loan costs.

Table 11--Water and waste disposal loan program:
Number of loans and dollars lent*

	Initial loans		Subsequent loans		Total loans	
	Number	Amount	Number	Amount	Number	Amount
1965	324	47,982,510	70	2,406,970	394	50,389,480
1966	705	107,889,768	96	4,913,020	801	112,802,788
1967	915	165,206,014	174	9,967,165	1,089	175,173,179
1968	775	149,802,640	241	12,789,710	1,016	162,592,350
1969	739	147,036,310	242	17,610,850	981	164,647,160
1970	647	123,183,450	294	22,847,040	941	146,030,490
1971	899	213,092,800	468	48,611,100	1,367	261,703,900
1972	631	220,777,500	595	79,221,500	1,226	299,999,000
1973	768	300,182,500	734	99,812,300	1,502	399,994,800
1974	546	288,354,157	779	181,644,943	1,325	469,999,100
1975	658	320,188,646	793	149,798,300	1,451	469,986,946
1976	597	308,206,748	648	134,435,086	1,245	442,641,834
1977	1,097	508,238,060	951	240,612,370	2,048	748,850,430
1978	756	509,133,100	946	240,862,700	1,702	749,995,800
1979	823	537,351,830	979	362,648,090	1,802	899,999,920
1980	869	418,664,010	956	281,335,690	1,825	699,999,700
1981	892	466,061,480	876	283,938,500	1,768	749,999,980
1982	423	202,338,450	505	172,661,550	928	375,000,000
1983	558	370,751,900	626	229,248,100	1,184	600,000,000**
1984	259	132,273,600	386	137,726,400	645	270,000,000
1985	343	191,386,700	440	148,613,300	783	340,000,000

* Includes loan costs.
** Includes $225,000,000 under the Emergency Jobs Bill in FY 1983.

Figure 12

Community Facility Loans, Numbers of Loans, Dollars Lent

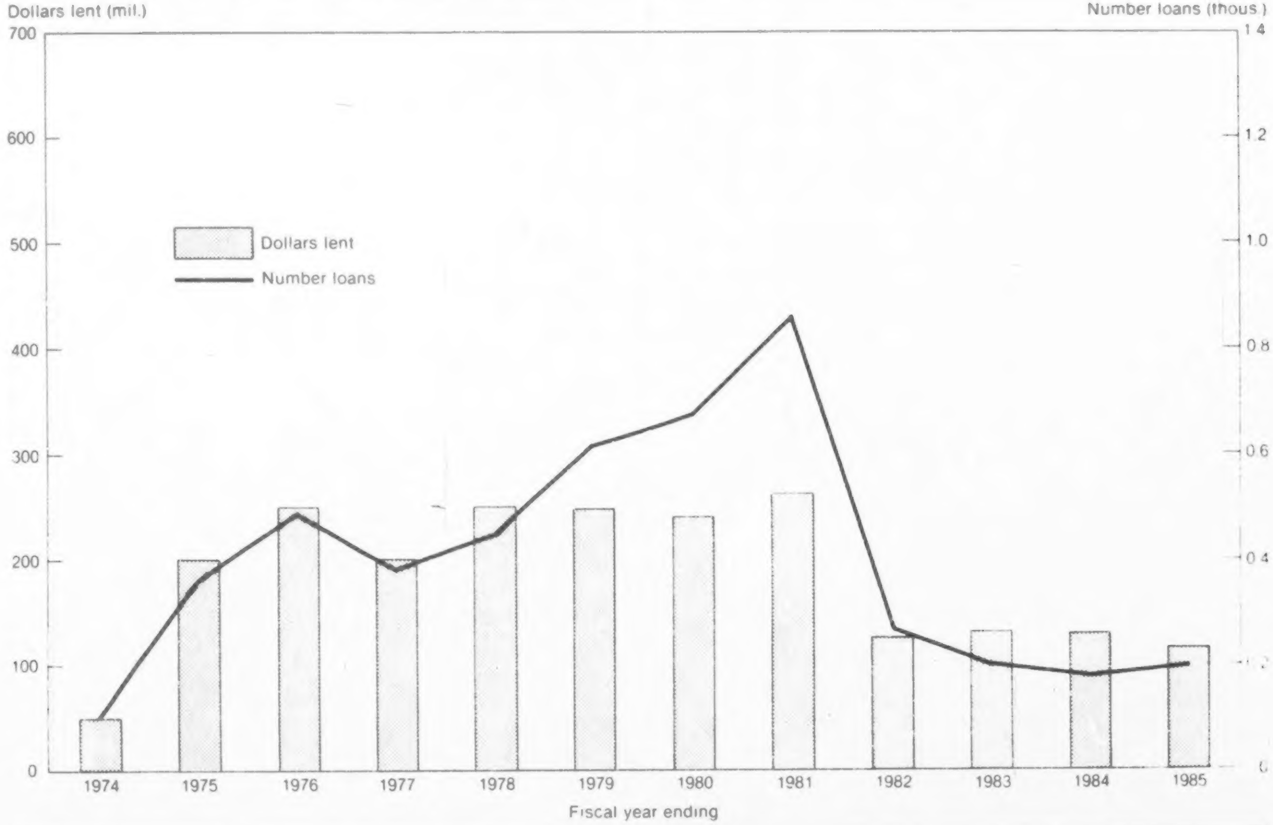


Table 12--Community facility loan program:
Number of loans and dollars lent

Fiscal year	Number	Amount
1974	102	$ 49,830,700
1975	359	199,998,000
1976 & T.Q.	485	249,995,600
1977	382	199,980,800
1978	447	249,997,000
1979	615	246,998,620
1980	674	240,000,000
1981	862	260,000,000
1982	267	126,191,250
1983	208	130,000,000
1984	173	129,998,500
1985	214	115,000,000

Figure 13

Business and Industrial Loans, Number of Loans, Dollars Lent

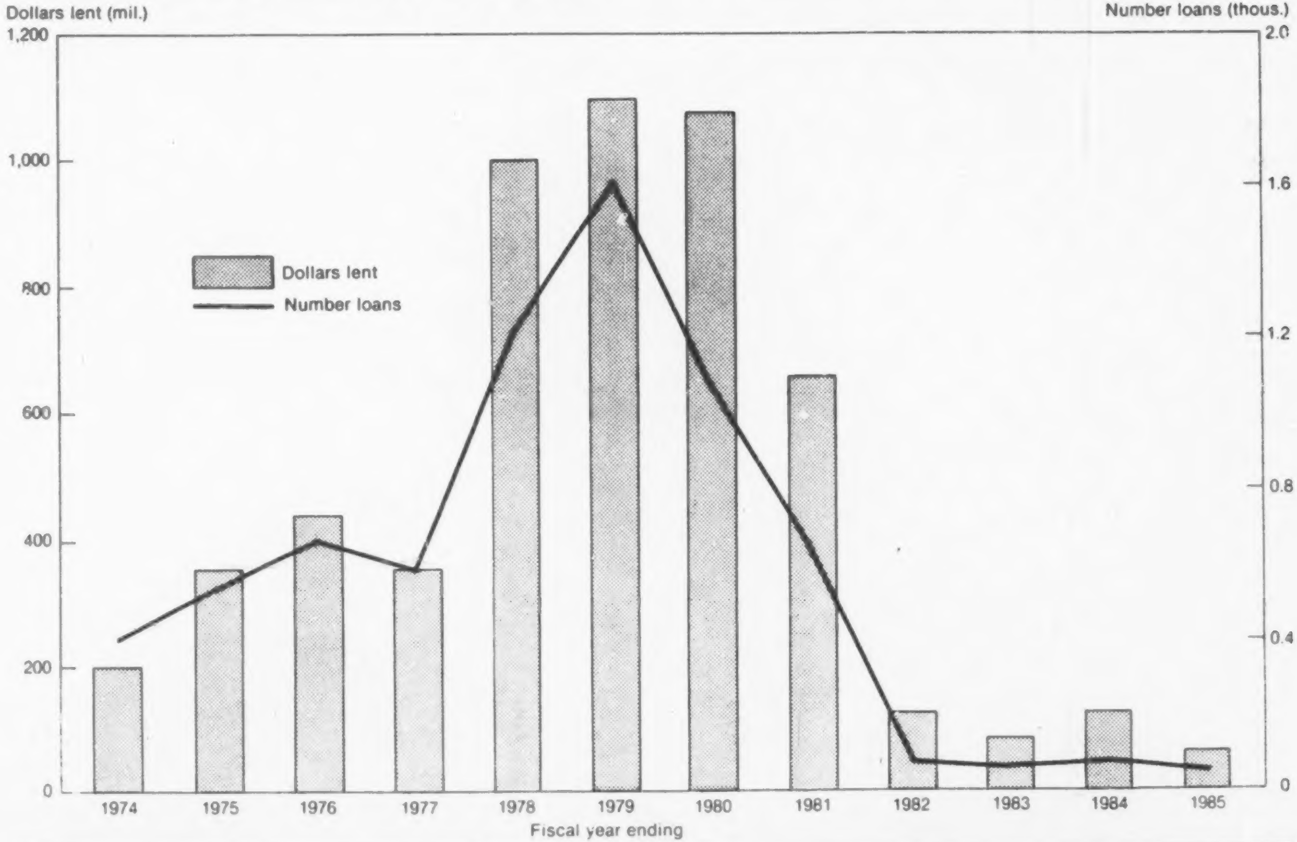


Table 13--Business and industrial development loan program: Number of loans and dollars lent

Fiscal year	Number	Amount
1974	399	$ 199,980,545*
1975	538	349,994,173*
1976 & T.Q.	663	437,498,741*
1977	584	349,987,010*
1978	1,213	999,978,030*
1979	1,609	1,097,376,903**
1980	1,160	1,073,766,920***
1981	638	652,280,250***
1982	74	125,077,575***
1983	64	81,911,810***
1984	75	124,352,250***
1985	54	61,337,500***

* Amount obligated is based on total amounts shown on face of note for all guaranteed loans.

** Amount obligated based on 90% guarantee rate of the loan.

*** Amount obligated based on actual percentage of guarantee of total loan.

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474 South Court Street
Montgomery, Alabama 36104

ALASKA
Tull Building, Palmer Business Plaza
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Palmer, Alaska 99645

ARIZONA
201 E. Indianola, Suite 275
Phoenix, Arizona 85012

ARKANSAS
Rm 5529, Federal Building
700 West Capitol, P.O. Box 2778
Little Rock, Arkansas 72203

CALIFORNIA
459 Cleveland Street
Woodland, California 95695

COLORADO
Room 231, #1 Diamond Plaza
2490 West 26th Avenue
Denver, Colorado 80211

DELAWARE, DISTRICT OF COLUMBIA, MARYLAND
2319 South Dupont Highway
Dover, Delaware 19901

FLORIDA
Room 214, Federal Building
401 SE. 1st Avenue, P.O. Box 1088
Gainesville, Florida 32602

GEORGIA
Stephens Federal Building
355 East Hancock Avenue
Athens, Georgia 30601

HAWAII
Room 311 Federal Building
154 Waianuenue Avenue
Hilo, Hawaii 96720

IDAHO
Room 429, Federal Building
304 N. Eighth Street
Boise, Idaho 83702

ILLINOIS
2106 W. Springfield Avenue
Champaign, Illinois 61821

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Des Moines, Iowa 50309

KANSAS
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Topeka, Kansas 66683

KENTUCKY
333 Waller Avenue
Lexington, Kentucky 40504

LOUISIANA
3727 Government Street
Alexandria, Louisiana 71302

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USDA Office Building
Orono, Maine 04473

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451 West Street
Amherst, Massachusetts 01002

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Room 209, Manly Miles Building
1405 South Harrison Road
East Lansing, Michigan 48823

MINNESOTA
252 Federal Office Building &
U.S. Courthouse, 316 North Robert Street
St. Paul, Minnesota 55101

MISSISSIPPI
Room 831, Federal Building
Jackson, Mississippi 39269

MISSOURI
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Columbia, Missouri 65202

MONTANA
Rm. 234, Federal Building
P.O. Box 850
Bozeman, Montana 59715

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100 Centennial Mall North
Lincoln, Nebraska 68508

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Mt. Holly, New Jersey 08060

NEW MEXICO
Room 3414, Federal Building
517 Gold Avenue, SW.
Albuquerque, New Mexico 87102

NEW YORK
Room 871
James M. Hanley Federal Building
100 South Clinton Street
Syracuse, New York 13260

NORTH CAROLINA
Room 525
310 New Bern Avenue
Raleigh, North Carolina 27601

NORTH DAKOTA
Room 208, Federal Building
Third and Rosser, P.O. Box 1737
Bismarck, North Dakota 58502

OHIO
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Columbus, Ohio 43215

OKLAHOMA
USDA Agricultural Center Bldg.
Stillwater, Oklahoma 74074

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1220 SW. 3rd Avenue
Portland, Oregon 97204

PENNSYLVANIA
Federal Building, Room 728
P.O. Box 905
Harrisburg, Pennsylvania 17108

PUERTO RICO
Rm. 623, Federal Building
Carlos Chardon St.
Hato Rey, Puerto Rico 00918

SOUTH CAROLINA
Rm. 1007, Strom Thurmond Federal Building
1835 Assembly Street
Columbia, South Carolina 29201

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Huron Federal Building, Room 308
200 4th Street SW.
Huron, South Dakota 57350

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538 Federal Building and U.S. Court House
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Nashville, Tennessee 37203

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Suite 102, Federal Building
101 South Main
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Salt Lake City, Utah 84138

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Richmond, Virginia 23240

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Morgantown, West Virginia 26505

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Stevens Point, Wisconsin 54481

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Casper, Wyoming 82602

NATIONAL OFFICE
U.S. Department of Agriculture
Farmers Home Administration
Washington, D.C. 20250

FORECLOSURE ON DELINQUENCIES

Senator COCHRAN. Thank you very much.

We had a hearing in January of this year, which was prompted by the revelation that a letter was going to be sent out to all Farmers Home borrowers who were delinquent by $100 or more. This, in effect, put them on notice for possible foreclosure action by the Farmers Home Administration.

I am curious to know whether or not at this stage of the year, several months later, the Farmers Home Administration has taken any action to foreclose delinquent loans? If so, what is the extent of that activity?

Mr. CLARK. A good direct point, Mr. Chairman. We did complete 65,000 letters: 27,000 of those were hardcore letters, giving them notice of intent to take adverse action; 28,000 of those are less intense letters, reminding our borrowers of their debt and asking them to come in and talk to us about the alternatives we are offering.

There has been no great ground swell of foreclosures across the Nation. I think our borrowers are acting in a very logical manner. We are, for the most part, sitting down and discussing those alternatives. We are exploring with many of them, who are now going into their financing for this crop year and making adjustments to their debt, rewriting, reamortizing, renegotiating those debts. Others who are not viable for the year are opting for our program of homestead provisions. This allows them to keep their homes, and let their land go, either voluntarily giving it to us for their debt or by bankruptcy. In some cases on foreclosure actions, the paperwork has been started, but nothing has really generated to that point.

It is very quiet, and we are very careful on how we go forward with the program.

LOAN QUALIFICATIONS

Senator COCHRAN. In our State, we have had less than half of the participation by farmers than we had in 1985 in direct lending programs of Farmers Home. I know from personal information that a lot of farmers are just not able to qualify under the regulations that have been promulgated by Farmers Home for these loans.

Is this a situation that is true nationwide? Do you find that the level of borrowing across the country is less than it was last year, or greater than it was last year?

Mr. CLARK. Our applications are down slightly from a year ago, Mr. Chairman. The dollars, obviously, are less this year as well.

Senator COCHRAN. What do you mean, the dollars are less this year?

Mr. CLARK. Our available funding this year is $2.2 billion for our loan program as opposed to $3.6 billion available to us last year. You are correct, many of the borrowers are not qualified this year who indeed might have been last year. We do have a cash flow requirement this year that was not in effect last year which precludes some of those from going forward. If they cannot find financing elsewhere, they are going to have to leave farming.

You mentioned the words "economic realities" a moment ago, and that is exactly what we are trying to bring into the forefront this year in our financing programs. If, indeed, we have erred at Farmers Home and if, indeed, the administration has erred in the past, it has been on the side of compassion and leniency. If we are going to be criticized, I think that it is because we have gone, in the past, too far with too much for too many.

That day of reckoning is here for 1986, and that is what we are trying to plug in, if you will, through the lending practices throughout our agency.

FARM OPERATING LOANS

Senator COCHRAN. What is the amount of money that you recommend be made available for the Direct Lending Program next year?

Mr. CLARK. Our 1987 request is $1.5 billion for insured farm operating loans in 1987. The 1986 level is $2.2 billion with the $700 million transferred from our emergency loan funds.

Senator COCHRAN. How much are you requesting for the Guaranteed Loan Program?

Mr. CLARK. It is currently $1.7 billion and we are requesting $2.5 billion in fiscal year 1987.

Senator COCHRAN. There will be more money made available for the Guaranteed Program, and less for the Direct Insured Program; is that correct?

Mr. CLARK. That is correct, roughly.

EMERGENCY LOAN PROGRAM

Senator COCHRAN. Do you foresee a need next year, if we go along with the recommended level of funding, to go into another account and transfer funds as you have this year?

You mentioned that $700 million was transferred from the Emergency Disaster Loan Program.

Mr. CLARK. No; I don't. Under proposed legislation, the Emergency Loan Program is no longer in the 1987 budget.

Senator COCHRAN. This year, it is in effect and there are funds that were made available by the committee for that program. I wonder whether or not there has been any emergency or disaster which would require the use of these funds?

Are we going to need to put that money back in before the end of the year to provide a cushion there? What is your expectation with respect to the $700 million as we get further along in this fiscal year?

Mr. NAYLOR. Mr. Chairman, I think that we would probably be all right next year from that perspective. The farm bill provides more transition to rely entirely on insurance and disaster assistance programs. It does phase out the old Emergency Loan Program, and a wise decision by the Senate and Congress.

On that basis, I think it was the expanded use of the Guaranteed Loan Program which will probably leave us in pretty good shape next year if we continue this transition process based on our request.

GUARANTEED LOAN PROGRAM

Senator COCHRAN. There has been some criticism of the Guaranteed Loan Program as just not being an attractive enough arrangement to get bank participation. What is your reaction to that criticism?

I have heard that from folks in my State who tried to get guaranteed loans. What is the experience in getting farmers and banks to use the Guaranteed Loan Program?

Mr. NAYLOR. I would ask Mr. Clark to comment on it, too. There is a wide discrepancy between States, depending on the activities and level of State banking organizations, the closeness and cooperation between our staff and the staff of the banking associations. Some States have made fine use of the program.

I think it is significant to note that last summer we asked banking organizations and farm organizations, but more particularly banking organizations, including farm creditors, to lend us their leadership and to revise that program and make corrections that may be workable from their perspective.

A series of changes were implemented last September, coupled with what the banking community has been requesting for several years, and the Congress, very wisely and effectively, formed the industry guideline rates. The simple truth, Mr. Chairman, in my view, is that any financial specialists who take a look at that program, both at the ease of use as it now exists and the effect it has on agricultural loans held by a bank, can only prove this an unusually attractive program to commercial bankers and to the banking community, which is what it was intended to be, to encourage them to stay with their farmers and ranchers.

Indeed, those bankers who have made good use of the program understand and are using it effectively, are finding it as a way to turn a loss into a profit for themselves and a way to be able to stay in, in a way that they have not been able to do in the past.

I think many bankers haven't done their homework adequately yet, or we would see much more aggressive use of this program than we have already.

Vance, you may want to add further to that.

RELUCTANCE OF BANKS TO MAKE LOANS

Mr. CLARK. I think some banks are using the paper flow as an excuse for not making those loans. I think that is a copout. If you really search and push, you will find that those banks don't want to make the agricultural loans. They don't want to take the 10-percent risk in making agricultural loans in their community.

In your State, we had an allocation of about $44 million for guaranteed loans, but we have obligated over $10 million in your State as well. There are some banks in your part of the country that are playing that role. Nationwide, we have booked almost $700 million in guaranteed loans, and last year it was less than $375 million at this time of year.

So, it is taking off in many parts of the country with great success.

INTEREST BUY-DOWN PROGRAM

Senator COCHRAN. What has been the response to the Interest Buy-Down Program?

Mr. CLARK. In your particular State, we have had no great interest in interest buy-down so far. We find that disappointing. In many States it has worked. Nationwide, we have received about 374 interest buy-down applications.

It is really early in the program yet, but we feel that it is taking off at a rate that is reassuring in many parts of the country. I think that we are going to see more participation in the program.

Senator COCHRAN. I have other questions about our farm lending programs, and the other programs administered by the Farmers Home Administration, but I am going to defer some of those questions and let other Senators have a chance to make whatever comments they may have or ask questions of you at this time.

Senator Burdick.

DISASTER LOANS FOR CROPS WITHOUT CROP INSURANCE

Senator Burdick. Just following what the chairman has delved into, what do we do about disaster loans where there is no crop insurance?

Mr. Naylor. All major program crops are virtually covered now, Senator. Most of the major specialty crops are now covered. There are a lot of smaller specialty crops that are not yet fully protected that would be exempted under law.

INSURED FARM OPERATING LOANS

Senator Burdick. In the direct operating loans, we appropriated $2.7 billion, and we are operating on $1.7 billion. I understand that $700 million was made available from the emergency loan funds. North Dakota received almost $210 million, and that is all there is.

I don't know whether that is going to hold them or not. Are there any other sources of funds?

Mr. Naylor. No; we will complete the spring lending season satisfactorily, but we will have to monitor it closely. We have about fully utilized our options as far as resources are concerned. Of course, the Gramm-Rudman provisions weigh very heavily on that, and that needs to be changed later in the year.

Senator Burdick. I hope so. We are getting down pretty low in North Dakota. Is there any other place that you can transfer funds?

Mr. Naylor. At this point in time, you are allowed a certain amount through the emergency lending and funding area, but I do not think so, although if we continue the low rate of use in the Emergency Lending Program, there might be a little room there, but not much.

CIRCUIT RIDER PROGRAM

Senator Burdick. The funding for the Circuit Rider Program—which was developed here in the last year or two, run by the National Rural Water Association—in 1985 was $1.6 million. In 1986, it was increased by $350,000 for the total of $1.95 million.

How do you intend to fund the Circuit Rider Program this year?

Mr. Clark. We do expect that to go on, Senator. We are sold on the Circuit Rider Program. We think that it is a valuable program. We provided $1.9 million this year, and next year it will be funded as well. We think we need to keep our finger on the service that we are getting out there on a competitive basis. We will let those contracts be monitored at the local level.

Senator Burdick. The President's budget deletes the circuit rider language. In other words, it is not as specifically set out this year as in the past. Does that mean that support for the program is weakening?

Mr. Clark. I don't think so. I don't understand your question.

Senator Burdick. You are still for it?

Mr. Clark. We are still for it. I guess you know that the language gives the authority to contract for other than the sources you are talking about.

Senator BURDICK. You indicated that the FmHA needs the flexibility. Do you believe in the program as it is run today?

Mr. CLARK. Yes; very much so.

Senator BURDICK. Do you suggest any other improvements for the program?

Mr. CLARK. Other than the bidding process, I think we need local input, to have those who are going to use the program tell us how it is best used, and the best providers should be on your list.

Senator BURDICK. There is no decrease in interest on your part?

Mr. CLARK. Not a bit.

Senator COCHRAN. Senator Abdnor.

RECENT SOUTH DAKOTA FLOOD

Senator ABDNOR. Thank you, Mr. Chairman.

I appreciate the chance to ask a couple of questions of Mr. Clark. I just returned from South Dakota, where we have had too much rain and water. We've had more water this spring than ever.

Is the disaster designation we requested being looked at so we won't waste too much time on it?

Mr. CLARK. Yes; it is, Senator.

Senator ABDNOR. I think the facts are all coming in now. The damage figures are being compiled, and the State emergency board has them pretty well complete. I know there are a lot of problems facing farmers, but this problem does come in the form of an emergency, and I can't stress enough that we receive the disaster designation just as quickly as possible.

GUARANTEED LOAN PROGRAM

I want to ask you about another problem we have dealing with the Guaranteed Loan Program and Interest Rate Buy-Down Program. We discussed these problems in my office the other day. You issued some new regulations on February 25, 1986, which caused the problem. The problem is that these new regulations require lenders to obtain separate and identifiable security before FmHA will issue a guarantee. Let me give you an example.

Say a farmer had $100,000 worth of real estate pledged on a $100,000 FmHA emergency loan, the farmer had paid back $60,000, and only owed $40,000 today. He has $60,000 in equity built up in that loan, but he can't use that equity, due to FmHA's separate and identifiable regulation.

It seems to me that equity over and above that which covers the loan ought to be able to be pledged against another loan if we are going to help farmers stay in business.

Is there any way this regulation can be changed?

Mr. CLARK. I would agree with you, Senator. If you have excess collateral that can be available, we ought to be able to subordinate another loan. If, indeed, that lender is willing to go forward on a guaranteed loan basis, why can't he subordinate? I have heard this before, and I am going to ask my people if they will look into it.

Senator ABDNOR. The regulations from the Department went into effect on February 25, 1986. It seems to me that we ought to be able to do something about this.

Mr. CLARK. There is a misinterpretation out there of the regulations, Senator, and we are going to look into it.

Senator ABDNOR. I would appreciate it if you would. I hope that between the States and the Feds, we will figure this out as soon as possible.

INTEREST BUY-DOWN PROGRAM

Another thing I wanted to ask you about is the Interest Buy-Down Program, which is not being well received in South Dakota.

One possible reason for this unpopularity is that FmHA regulations state that the loan has to be paid in equal payments. I mentioned this the other day.

Mr. CLARK. That is correct. I think that is a weakness, too. If, indeed, there is a regulatory restraint on that, if it makes sense, we will put our pencil to it and see what our exposure will be. I think it also requires a regulation change. I promise to look at that as well.

Senator ABDNOR. Thank you very much.

Mr. CLARK. A tool the bankers use is balloon payments as part of reconstructing credit. We ought to be able to do that.

Senator ABDNOR. We need considerable help in an area that is really depressed right now. I would thank you very much if you would give that your consideration and let me know as soon as you can.

Mr. CLARK. I will.

Senator COCHRAN. Senator Andrews.

INSURED FARM OPERATING LOAN PROGRAM

Senator ANDREWS. Thank you, Mr. Chairman.

Mr. Clark, as you know, we are pushing up against that knife's edge in getting these loans out for the operation of farms, and the $700 million transferred into the direct operating loan fund. What is the status of that fund reserve at this point in time?

Mr. CLARK. We have a total of unobligated funds in our direct program of $345 million; $208 million is the balance of that $700 million that you are talking about. We have yet in our national reserve $208 million-plus that we are carefully allocating on a daily basis.

Senator ANDREWS. What is the amount of requests pending?

Mr. CLARK. We now have in backlog unobligated loans that amount to $148 million.

Senator Andrews. So you have $148 million worth of requests pending against $208 million still there?

Mr. CLARK. That is correct.

RATE OF OBLIGATION

Senator ANDREWS. How long have these requests been pending?

Mr. CLARK. I can't tell you the mix, but that backlog varies from day to day because we do funding allocations on a daily basis. Some States have, perhaps, a longer waiting period than others because they have gone farther overboard than the original allocations allowed them to do. We are dealing on a daily basis with those States, and not funding them as rapidly as others who are just coming on stream with their requests for additional funding.

We have 31 States that have utilized a piece of that $700 million, 16 of the 50 States are overdrawn, if you will, using more than what they would have been allocated had we done it on an equitable basis at the beginning of that $700 million allocation.

Senator ANDREWS. It is extremely difficult to allocate until you have the applications in hand, that is why the initial alignment of where it might have to go is probably somewhat in error.

Mr. CLARK. Some States are asking for funds when they have not yet utilized the funds we have given them a week before or a day before. We will wait until they have utilized those funds before we give them more.

Senator ANDREWS. It is a very delicate balance here. So far you have kept up with Palm Beach and South Dakota fairly well. As of yesterday morning, I am told they have $7.9 million in approved loans stockpiled. Yet, they say you are refusing to disburse that money to them because you claim they still have funds remaining in their coffers. As I understand, these remaining funds can't be approved at the local level due to their size and have to be reviewed in the State office.

What they have done is they have sent into the State office the package to be reviewed, and they are coming in again. Some of these have been waiting since the first half of April, and in sending back out for further review, they are doing precisely what you asked them to do in the review process, but you are not approving any substantive loan requests. That seems like a catch-22 situation.

These borrowers get nervous about there not being any more money for direct operating loans this year, or if there will be. It would appear that, based on the figures you just gave me, there is. When will those funds be disbursed in the case of North Dakota, with $7.9 million?

LOANS OBLIGATED IN NORTH DAKOTA

Mr. CLARK. I have $7.4 million, and it could have gone up to $7.9 million. They still have $2 million that they have not utilized in North Dakota. Incidentally, your State has received more than its share compared to other States. North Dakota is now overdrawn, if you will, $17 million over and above what they would have normally drawn.

Senator ANDREWS. It is allocated on the basis of proving need, but as I understand, as of April 11, we had $378,000. We went up on April 14 to $643,000, on up to April 22, we had $1.6 million. Now these are the breakdowns of North Dakota applications just totaled of $7.9 million. Some of them, a third of a million, dating from April 11, April 14, and April 16. I have the list, some of them have been for quite a while.

When you reprocess—what you are asking for—and the $2 million that is there is not available to go to these other loans coming because they are doing what you precisely asked them to do, to reprocess them.

Can I continue to assure these borrowers in North Dakota what Secretary Lyng said in his confirmation hearing in this very room is still operational, that any farmer who is qualified for these operating loans will be accommodated?

Mr. CLARK. I was not familiar with Mr. Lyng's commitment.

Senator ANDREWS. But you are now.

LIMITED FUNDS AVAILABLE

Mr. CLARK. There are limited funds. A lot of States out there have not yet come to us. They are doing what they need to do now, but their planting season is a bit later than what you are experiencing.

Senator ANDREWS. That is true, but our planting season is on right now. If the sun breaks through those clouds, and it is today, in a couple or 3 days there is going to be no choice but to have to be in the fields. Many of these loan applications started as long ago as 3 months, they have been in the office now for up to 2 to 3 weeks, and they are very conscientiously doing the very review process you asked them to do.

I hate to have to tell some of these farmers that because the State office is doing what you asked them to do in the review process, that they may end up short. You and I have talked, and Secretary Naylor and I have talked. You have done a good job of trying to accommodate them. I just want to make sure that good job continues. The $7.9 million that we received, you are not playing with the idea that there is $2 million out there, therefore, their needs are taken care of?

Mr. CLARK. We need to do a better job in your State, Senator, for guaranteed loans. It has not taken off in your State. Interest buy-down has been practically zip, as I recall.

Senator ANDREWS. Mr. Clark, that is not the farmers' problem. Quite candidly, we are going to have to do a little bit better job of persuading the local vendors and the PCA to use that kind of guaranteed loan. I have talked about that, it is in great need, but yet I don't want to see the farmer hung in balance because they are not doing that fast enough.

We have been down considerably. We are down to about 30 percent with the direct loans that we had to have last year. So it has moved quite a way in that direction. Again, you and I talked about this a week or so ago, and you said that they have been moving in that direction.

RELIANCE ON FMHA

Mr. CLARK. There is almost a paternalistic attitude on the part of many of our borrowers that they can enjoy our very low interest rates, comparatively, and they are going to stay there. I think we need to do a little pushing sometimes, and they need to go out of the nest.

Senator ANDREWS. Under the loan guarantee, isn't it true, Mr. Clark, that they can get that loan as cheaply as far as interest rates from the bank as they can from Farmers Home?

Mr. CLARK. That is true.

Senator ANDREWS. Then, wouldn't you suspect that it is because they feel comfortable with the officer that happens to be in Farmers Home, and don't want to go to some stranger who they don't know?

You can't say that it is an economic reason for not transferring because the interest rates are now the same, that is one of the significant things we did in putting this new loan guarantee concept together.

You are constantly reviewing the need for this $7.9 million, and you will continue to allocate this money, which you say you still have some $50 million unallocated, unearmarked. In the earmarked part, you included the $7.9 million, I just mentioned for North Dakota, your figure of $7.4 million?

Mr. CLARK. Earmarked?

Senator ANDREWS. No; you said that the demand drawn out against the balance of $700 million that would be in the $150 million or there abouts.

Mr. CLARK. That is correct.

Senator ANDREWS. The money is there for it, once they get through the qualifications. Would you anticipate that they can get that money disbursed within the next week?

Mr. CLARK. I think that we have to be very careful how we allocate this. Again, I am concerned about a lot of things. I am concerned about the credit. We have more bank failures out there. We find borrowers with no place else to go. They are going to have to come to our window. I want to be sure that there are funds available for those farmers as well.

TRANSFERRING LOAN FUNDS

Senator ANDREWS. Has your agency run an in-house review on shifting funds around, should the direct operating funds run out?

Mr. CLARK. I am sorry; could you repeat your question?

Senator ANDREWS. If you reach the limit of the $700 million, and the direct operating funds then run out, have you done a study of shifting funds around to accommodate the legitimate excess over that $700 million, or are we going to confront it with an emergency, "What do we do now about it," down the pike?

Mr. CLARK. I have done my study. We can compare notes with the Under Secretary.

Mr. NAYLOR. Senator, there is no anticipation at this point that we will not have adequate funds based on the demand. We have seen through the door that the season only runs for about 2 more weeks. Historically, the record clearly indicates that.

We do not anticipate a problem. We are going to monitor the winter wheat period, which is a July lending season. In answer to your question, there is no specific plan for additional transfers. It is possible, in the Emergency Lending Program, where we took $700 million from earlier in the year. I would have some reservations about transferring any more until we see what demand is going against those funds for the balance of the year.

It might be a little bit more, but not much.

LACK OF PARTICIPATION OF BANKS

Senator ANDREWS. You are in an almost impossible situation if you are trying to force the banker to go into a program he doesn't want to. This, after all, is a free enterprise country, and if the banker doesn't want to go into that program, as much as you feel it is desirable for the community to go into it, why do you hold the farmer hostage?

The Farmers Home office, for some reason, probably is not under the farmer's control, and his loan has been delayed. Now it is there, it is approved, the bank in his community is not making the loans. Is it fair? Is it just? Does it make sense, while we still have money available for these direct operating loans, to tell that farmer, "tough, you are qualified, we have the money, we are not going to give it to you because your bank is not joining the programs we think it can?"

How can you compel that bank to do this when you want to do it over the body of the farmer?

Mr. CLARK. Hopefully not.

Mr. NAYLOR. I do not think we do. On the other hand, to say to people, "don't communicate with each other," is also wrong. The bank and the producer, in fact, have a half a dozen problems with the PCA and the land bank.

Many banks, I am afraid, have been sitting on a fence, hoping they would move as they did last year when I moved their borrowers over to our Direct Lending Program. In their private conversations, it is quite clear that is not going to be the case. They will continue with their borrowers, and will use the guaranteed program. They are doing much of this in the last year, waiting until the 11th hour to make those decisions.

As you recall, last year, Senator, almost $1 billion in guaranteed loans were made in the last month of the lending season.

Senator ANDREWS. Last year, we had to tell them about their cabinet appointment in order to make someone see the light of day to get some money here. That is a lousy way to get farm operating funds.

Mr. NAYLOR. We do have adequate funds this year.

LOAN DISBURSEMENTS

Senator ANDREWS. We have made that point that you have adequate funds. Now the point we are trying to make is, are you going to disburse those funds to the individual qualified? Justice delayed is justice denied. If you hang up that farmer for another couple or 3 weeks, he can't put that crop in the ground.

Mr. NAYLOR. We are distributing those funds on a daily basis, and we are moving them through. There are a few States that have gone substantially over their allocation. I think Mr. Clark has asked them to review this situation and assure us that all those loans should be direct loans. Some of them should not be approved through the guaranteed channel, and various banks are acting as appropriate.

We do have available to us adequate funds at this point to meet the spring lending needs, and we will meet them.

Senator ANDREWS. In a sense, I can imply from that that you are not going to use the farmer's life or death opportunity to get a crop in as a cudgel, trying to beat some local banker into a program he doesn't want to get into?

PARTICIPATION OF BANKS

Mr. NAYLOR. No, Senator; we are not using any farmer to beat anybody over the head. They will beat the head of the banker or the PCA out there who does not take care of his producers the way he ought to be doing.

Senator ANDREWS. That is fine, but that is a different fight. I am not even joining you in that one, but I don't want to see that farmer being used as a weapon in this war against noncooperating individuals in a program you think they ought to cooperate in, and that is not fair to that farm family.

Mr. NAYLOR. It is fair. It is just that they can properly take that option. It is a requirement in the law that the Senate and Congress have long had in place. The simple fact of the matter is that a good deal of those loans can be handled properly by the banks and profitably by the banks under the guaranteed program.

Senator ANDREWS. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you.

Senator Bumpers.

BANKS RELUCTANT TO MAKE LOANS

Senator BUMPERS. Mr. Naylor, Mr. Clark, Senator Andrews covered many of the subjects that I wanted to ask about. We come to this committee, and we get these soothing reassurances, and yet I go home and it is absolutely chaos with the farmers.

Things have let up a little bit in my State, but it seems to me that oftentimes we get one version here and then I go back home and the farmers are absolutely desperate because of two things: Either their loan is approved but the money is not available, or they have the ability to get a guaranteed loan and the bank won't make it. They are just strung out there.

I am like Senator Andrews. I believe the farmer is the guy trapped in between. There are not many banks in my State that are going to make a guaranteed loan to any farmer with no better assurances than those which we have in this country for the next 5 years.

So, FmHA says to the farmer: Look, you go down to the bank and get this money, we are out of money. He goes down to the bank, and they say: Listen, we are just out of money. We are not making any loans.

What on earth is he supposed to do? That is a very common occurrence; do you agree with that, Mr. Naylor?

Mr. NAYLOR. Yes, and no, Senator. First of all, there is more than adequate funding available by any standards to meet the requirements.

Senator BUMPERS. Let me interrupt for just a moment. The bank may say, we are out of money, and others may say, we aren't making any agricultural loans. The farmer is in the same position.

Mr. NAYLOR. I understand the problem exists in some of the communities. There are funds available and there are good programs for the banks to support their community. Frankly, I feel they have an obligation to meet the producer's community needs. That is what they are there for.

We provide an excellent resource to do that, and they need to be reminded of that. The Direct Lending Program indeed has adequate funds, and it is meeting the demand.

I think part of the problem, Senator, is one that we will never be able to correct, and that is the schedule of producers. It is certainly the case in my area. We tend to see all of our producers essentially walking in the door at about the same time every year for their spring lending. All of us in the banking business get accused of backlog.

We process those loans as quickly as we can, and move through that spring cycle. The farmer who gets his appointment with the loan officer in February, and gets his loan through and approved, is very comfortable. But the borrower who is at the end of the appointment cycle and waiting that out, I think, is justifiably uncomfortable because he is waiting to have his opportunity to come in.

I doubt we will ever change that pattern in our producers. That has been——

Senator BUMPERS. It has been that way ever since I have been in the Senate.

Mr. NAYLOR. It is this way every year.

STAFF INCREASED TO HANDLE WORKLOAD

Mr. Clark has worked very hard to deal with that. We have put the equivalent of 1,800 extra people on the payroll to help us over this hump in the spring lending season.

Senator BUMPERS. Most of those have apparently gone to the Midwest.

Mr. NAYLOR. They have certainly gotten their significant share, but I think that you will find in our massive numbers that we receive——

Senator BUMPERS. I can say to you that the morale of the Farmers Home offices in my State is lower than a snake's belly right now.

Mr. NAYLOR. I think you see a lot of the concern in the Midwest, in general, Senator. The economic picture will change in that industry, as we see the efforts to turn the economy in the agricultural situation.

AVAILABILITY OF DIRECT LOANS

Senator BUMPERS. Mr. Naylor, can you promise me that any farmer who has been approved or meets the requirements for a direct loan will receive one, or at least will not be turned down for lack of money?

Mr. NAYLOR. No, Senator, I can't. We have allocated some funds that were there when we ran out. If that were to occur before the end of the lending season, we, indeed, would be out. We don't expect that to happen, but I can't guarantee you it won't.

Senator BUMPERS. As of this moment, you have $16 million, according to Mr. Clark, in unobligated funds. My State needs $3 million right now, as of this morning, desperately. They are going to need another $10 million for the rest of the year. Can you promise they will get the $10 million?

Mr. NAYLOR. I presume that they will. I am almost certain that they have had additional funds allocated and perhaps more will be allocated before the season is out. There is a balance of unobligated funds of over $300 million, and there is about $200 million left in that national office reserve. At this point, it appears to us, we only have about 2 weeks left in the spring lending season before we are essentially finished with it. On that basis, it appears we have adequate funds to meet any demand we place against it.

If we had an unexpected surge of requests, that may or may not be the case. There is no reason to expect that to happen.

Senator BUMPERS. What is the total amount of direct loan money available this year compared to last year?

Mr. NAYLOR. Last year, we used about $3.5 billion. This year the President authorized $2.3 billion.

Senator BUMPERS. Did you say $2.3?

Mr. NAYLOR. Yes; it is $2.2-something.

Senator BUMPERS. Down about 30 percent?

Mr. NAYLOR. Yes.

Senator BUMPERS. How many guaranteed loans were there last year as compared to this year?

Mr. NAYLOR. About half as many, but we have a significant increase in availability of guaranteed funds this year. The total funds available are comparable, or very close to what we used last year, including the guaranteed.

Senator BUMPERS. What are the numbers of loans at this stage compared to last year?

Mr. CLARK. We have obligated about 7,200 guaranteed loans. It was about 3,200 at this time last year. We have obligated over 41,500 direct loans so far this year. Last year, 55,600 direct loans were made. So the numbers are down significantly in direct lending.

Mr. NAYLOR. Part of that, Senator, is that many producers used advance program payments in lieu of direct loans this year, and not simply inability to qualify.

Senator BUMPERS. Let me understand. Did you say we made 7,200 direct loans last year?

Mr. CLARK. That is guaranteed loans this year.

Senator BUMPERS. Guaranteed loans this year compared to how many last year?

Mr. CLARK. Last year it was 3,200.

Senator BUMPERS. So you had an increase of 4,000 guaranteed loans?

Mr. CLARK. That is correct.

Senator BUMPERS. Your direct loans are down from 55,600 to 41,500?

Mr. CLARK. That is correct.

NOTICES OF ADVERSE ACTIONS

Senator BUMPERS. Let me ask you, Mr. Clark, did you send out a notice to State offices recently to, again, send out the adverse action notices?

Mr. CLARK. We sent 28,000 borrowers our first soft letter reminding them of their indebtedness, asking them to come in. If we have not heard from them, or have been unable to resolve their indebtedness, those notices then have been instructed to be sent out again.

I can't give you a number, Senator. They are not the full 28,000.

Senator BUMPERS. The 28,000—was that the number of farmers who were at least $100 delinquent, or is that the number who are over 3 years delinquent?

Mr. CLARK. Over $100 and less than 3 years.

Senator BUMPERS. You sent out 28,000 of those?

Mr. CLARK. Yes.

Senator BUMPERS. Those were not the ones who were notified that you were getting ready to take adverse action, but those over 3 years were?

Mr. CLARK. That is right. Another 27,000 went to those 3 years or more delinquent.

Senator BUMPERS. I am concerned about those under 3 years. There were 28,000 of those?

Mr. CLARK. That is right.

Senator BUMPERS. You are telling me the ones you did hear from or the ones able to satisfactorily arrange their credit, you are not sending letters out to them to take adverse action?

Mr. CLARK. Right.

Senator BUMPERS. How many of those are there?

Mr. CLARK. I don't have those numbers yet. The initial decision regarding the servicing notice needs to be made at the county office level. Many of these cases will not require any further action. The notice was really needed at the start of the process to satisfy the regulatory requirements so that further action can proceed.

ARRANGING CREDIT FOR FARMERS

Senator BUMPERS. In determining whether or not a farmer is going to be able to arrange credit, even though he is 3 years delinquent, he has to show a 5-year cash flow that will allow him to pay up; is that correct?

Mr. CLARK. Or a debt deferral.

Senator BUMPERS. I am also told that in making that, Farmers Home would only allow him to use a price on commodities for 1991 which is unbelievably low. Are you familiar with that?

Mr. CLARK. I am.

Senator BUMPERS. Do you agree with that?

Mr. CLARK. Well, I have never heard——

Senator BUMPERS. It seems to be a contradiction of the farm bill that was just passed, that it is going to make everybody so rich by 1991. Yet, when a farmer comes in to try to arrange for his 5-year credit, you show that he is going to be broke.

Mr. NAYLOR. No, Senator; those numbers were used and developed by our research service, and it represents a range. Nobody is that good in projecting the future. They represent a range that the officers are allowed to use.

Senator BUMPERS. What is the range on soybeans for 1991?

Mr. NAYLOR. I don't have those numbers.

Senator BUMPERS. Does anybody have them?

Mr. CLARK. I don't. They haven't been provided.

Senator BUMPERS. This is really creating havoc in my State. Some of them really feel they have been had because of this very problem I am talking about. The lowest prices that you allow in commodities, anybody that is struggling is not going to be able to show his ability to survive on that basis.

CUTBACKS IN STAFF

Let me ask you one other thing. How many people have been cut under Gramm-Rudman in the Farmers Home Administration?

Mr. CLARK. None at all. We have been able to maintain our staff, and with additional——

Senator BUMPERS. All we hear is that we have to cut back. We have cut out so many people in Arkansas. You have moved the office in Texarkana, which absolutely makes no sense, and shut the offices in Lewisville and in Russellville, which also makes no sense whatsoever.

What is the purpose of all of this? They are being told that they have to cut back on personnel.

Mr. CLARK. That is not true. We have given 20 extra staff allocations in your State this year and $135,000 in overtime just to take care of our property managers. Each year we establish our allocations based upon the previous year of activity in the State. We have always limited any reductions or increases to 3 percent.

CHANGES IN COUNTY OFFICE LOCATIONS

Senator BUMPERS. Would you send me the rationale on the Danville office, and the Texarkana office, why you are moving one 40 miles up the road, and another 10 miles away?

Mr. CLARK. I would be happy to. There has to be a good logical reason to do that. It is not just done out of a whimsical observation.

Senator BUMPERS. It seems whimsical from where I sit. That is why I want you to send me justifications.

Mr. CLARK. I would be happy to.

PLIGHT OF BLACK FARMERS

Senator BUMPERS. Mr. Chairman, there is one other thing. We have an inordinate number of black farmers who are being eliminated. Are you familiar with that?

Mr. CLARK. I hear the charge.

Senator BUMPERS. Have you asked the office in Arkansas to give you an explanation for that, or is that just a coincidence?

Mr. CLARK. I think the black farmer issue is a constant one with us.

Senator BUMPERS. Is that not just in Arkansas, we are getting it nationwide?

Mr. CLARK. No, not nationwide. In some States, that is not an issue.

Senator BUMPERS. Is that a problem in Senator Bumpers' State?

Mr. CLARK. I think it is. We are aware that——

Senator BUMPERS. All across the South?

Mr. CLARK. Declining numbers are a concern to us, as well. We are trying to plug in some new issues and some programs that will cause us to retain those black farmers. Again, the college system is getting out in the field to work with our black borrowers to make sure our black farmers understand their rights under those intent letters, and the counseling is on a one-on-one basis.

Mr. NAYLOR. Senator, I appreciate your concern on this issue, but I think that it is much broader an issue than just in the Farmers Home Administration. It was an issue Secretary Lyng was most concerned about. On a national basis, there are only about 50,000 black farmers, who are quite old on average age as compared to the farmers overall.

The universities and the land grant colleges have seen great difficulties in drafting new young operators back into farming.

Senator BUMPERS. I was reared on a farm, but I wouldn't go into farming now whether I was black or white. Certainly, this disturbing problem will require much attention and a great effort by the Farmers Home Administration, as well as a real effort on all our parts in the Government, in order to overcome that problem and deal with it thoroughly and equitably.

EASEMENTS IN FARM BILL

One final question. On the conservation set-aside, on those easements which Senator Cochran put in his farm bill, Fish and Wildlife Service is anxious to manage some of those wetlands and swamplands and so on. You still don't have any regulations on that, do you?

Mr. NAYLOR. No; that is one of the ARS processes being completed. We put priorities on those actions which were most broadly affecting producers in the geographic area first. These had, frankly, fallen to the bottom of the heap. But we are moving to complete them as quickly as possible.

Senator BUMPERS. How soon is "as quickly as possible?"

Mr. NAYLOR. Next month or so; about 60 days.

Senator BUMPERS. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you.

Senator Mattingly.

Senator MATTINGLY. I will submit my questions for the record, Mr. Chairman.

FINANCIAL ALTERNATIVES FOR BORROWERS

Senator COCHRAN. We had, in the farm bill, provisions that provide some alternatives to farmers other than foreclosure. Senator Bumpers mentioned the Conservation Easement Program whereby farmers could identify, in consultation with the Farmers Home Administration, land that could not be economically kept in cultivation that was too wet, too boggy, and shouldn't have been put into cultivation to begin with. Farmers cultivated these lands because of high prices of soybeans and other attractive conditions. Farmers actually destroyed wetlands and other marginal lands and put them into cultivation, taking advantage of those prices. Now that prices have gone down and those lands have become unproductive, they are forced to keep them in cultivation to try to make something out of them to reduce the indebtedness that has been built up.

Because of that, we had in the farm bill a Conservation Easement Program. This is a concrete program to provide incentives for converting the use of that land to some better use, some better use from a conservation standpoint, and a better use from the standpoint of the economics, in the long run.

This and other programs are being deferred, and I understand this, because of regulations that are being developed and implemented to help preserve the homeownership rights.

I would want to compliment Senator Mattingly for his leadership in providing us with a program that will help protect the homestead of the delinquent Farmers Home borrowers.

There is another program referred to as the Lease-Back Program and another which gives special consideration for delinquent farmers who plant pine trees on land currently used for row cropping.

I was wondering how all of these programs are being implemented, if we can expect regulations to be promulgated, and if these programs will be implemented by the Farmers Home Administration to provide some alternatives to foreclosure to qualified farmers?

Mr. NAYLOR. Mr. Chairman, I commend you and your leadership, and Senator Mattingly in his providing several very useful tools. We brought them on line in the order in which we feel they would have the broadest application. The homestead provision that we felt had the broadest application to most operators to be beneficial is on-line. We are moving with regulations on the conservation easement, which we think is useful in the Midwest, as well as your region.

The one that appears to have least merit, the least application, may well be the forestry, the reforestation, just because a limited number of people may be able to qualify for it.

The lease-back provision is another variation of the homestead provision. I personally think that the program has substantial merit to offer an opportunity to provide assistance to those operators who are under the most severe stress.

We do fully support and make full use of them. I would again take this opportunity to commend you and your leadership, and other members of the Agriculture Subcommittee, for giving us, and having the foresight to give, the tools that will allow us to help those under the greatest stress.

I am confident we will have all of the regulations in place by midsummer on the very last of those. We are trying to finish up.

RURAL HOUSING VOUCHER PROGRAM

Senator COCHRAN. Turning to the rural housing area, I know the budget proposes to transfer from the Farmers Home Administration to Housing and Urban Development all housing responsibility in rural areas. There is a voucher program that is recommended in the budget to try to help meet some of these rural housing needs.

Let me ask you what your impression is of this voucher program. Farmers Home would not administer it, as I understand it, but it would be administered by HUD. Is it your judgment that this is going to meet the needs of those in rural areas for housing assistance?

I am talking about those who can't afford to build their own homes, can't afford to pay the high cost of rent that would be required in some areas. Is there a way of saving rural Americans who are really not going to have a program?

Is this a termination of rural housing assistance in disguise?

Mr. NAYLOR. No, Mr. Chairman. The administration has been working on housing for several years, trying to find better alternatives for the overall housing needs in rural America and urban areas. The move in this direction, I think, is a logical one. It is one that balances the realistic needs that we still have in the rural areas. We have done a good job overall, historically.

The financial community and the methods of delivering housing are changing significantly. The availability of funds in the rural areas that were once difficult are not so difficult any more because of the basic changes in our financial institutions. It is time for us to look at some changes to recognize what is going on around us.

I think that the recommendation of the administration will meet the reasonable needs that are out there.

RURAL HOUSING PRESERVATION GRANTS

Senator COCHRAN. There is a Rural Housing Preservation Grants Program, which was first funded in 1984 in the supplemental appropriations bill. It is my understanding that the regulations were just recently sent to OMB to implement that program.

Can you tell me why it has taken so long to get these regulations written and submitted to OMB?

Mr. Clark. I don't know why it has taken so long. I can't answer that. I think there is merit to the preservation program, and I think that it should go forward. We are now promulgating those regulations.

Senator Cochran. It is sort of like an impoundment of funds. If Congress approves an appropriation for the program, and nothing ever happens, that is similar to an impoundment. There is a provision in the law for the administration's disagreement with appropriations. There can be a deferral, or there can be a rescission. There is a procedure set out for the way that is to be dealt with. It seems to me that what we are seeing with this program is a circumvention by the administration of provisions of that law.

There is $19 million available in this program, and I don't suppose that it would ever be spent if regulations were never written or the program was never implemented. It seems that your attitude is to just sit there long enough, and Congress will forget about it, and it will never happen.

I would like to see that money spent for the purposes for which it was appropriated. Can you help see that that program is implemented?

Mr. Clark. You are absolutely right. We published some proposed rules in July of last year, and we want to go forward with the final rules. So, I would say, yes, time is running out and we should be doing something about it.

Senator Cochran. We appreciate your help. I hope that we can see that program implemented.

Mr. Clark. Could I make a point?

SUCCESS OF RURAL HOUSING PROGRAMS

On the housing issue, I certainly think we have been doing a good job in rural America with our housing programs. It is a very expensive program. If you look at the rental subsidies, we are burdened with over $2 billion a year. We have over 15,000 single-family homes in our inventory now for sale, and yet we have others asking us to build more houses in rural America.

Even with the inventory we have, it costs a great deal of money to maintain that inventory. It costs about $318 a month per house to maintain that inventory. It is a very expensive program. I am all for different programs for rural America, including the voucher system.

Senator Cochran. We have basic disagreements with that. For instance, if you convert it to a voucher system, and you get rid of Farmers Home Administration responsibility for rural housing, then you will have one housing office in each State. Right now, we have county Farmers Home Administration offices. These offices are more accessible for those who are interested in taking advantage of the program. They are closer to the people who will be served by the program.

I disagree very strongly with the administration's initiative in the housing area. I don't think there is any big secret about it. I have been trying to get the Budget Committee to put larger numbers in the category for rural housing than they earlier wanted. I am glad that the Budget Committee put in larger numbers than the administration is requesting for rural housing.

I applaud Senator Domenici for his sensitivity in that area. We have had some conversations about it. I don't know what the numbers are going to be when we have a budget resolution finally agreed upon by the Congress. We may not have one since the House committee wouldn't even meet to markup a resolution. That is an interesting response to the budget responsibility. We could ask them what their intentions are, but I don't think we will get an answer.

I think that the housing programs are important. In my State, we have a lot of unmet housing needs, and they do persist in spite of the efforts by the Farmers Home Administration and other agencies that have tried to help meet those needs.

HOUSING AUTHORIZATION BILL VERSUS APPROPRIATION LEVELS

I understand that the Reconciliation Act authorized loan levels with different priorities from those that we specified in our appropriations bill. We set a level of $1.4 billion for single-family, section 502 loans, and $700 million for the section 515 multifamily program. The Reconciliation Act authorized $1.2 billion for section 502, and $900 million for section 515 programs.

I am curious about which level the administration will follow, the authorized level or the appropriated level?

Mr. NAYLOR. Mr. Chairman, I don't have the answer for you, because the General Counsel's Office incurred the question last December and has still not finished the legal evaluation of which one they feel we are obliged to follow. As soon as that is completed by the General Counsel's Office, I will reply.

Senator COCHRAN. I would appreciate that. We have difficulties here, too, working through those kinds of conflicts between the appropriated level and the authorized level. As a matter of fact, we voted on that here in the Senate on the floor as to which level is controlled under the Gramm-Rudman-Hollings amendment: The authorized level, which was drafted by the Legislative Committee for the Farmers Home loan program; or the amount provided through the appropriation process.

We are working our way through some of those difficulties, too, but I would appreciate having that information so we can know what the administration's position is.

CONTRACTING FOR SERVICES

I have one request relating to contracting out services. In your budget proposal, I understand that Farmers Home is considering contracting with the private sector for annual renewal of interest credit in the Rural Housing Program. It is said to be a money-saving effort.

I wonder what exactly interest credit renewal is, and how borrowers qualify for that, and what the status is of that proposal?

Mr. NAYLOR. Mr. Chairman, the law requires of the General Accounting Office and the Inspector General that we must review each borrower's income each year, and revise the amount of subsidy which they receive in accordance with the law, and that is a laborious and lengthy process. But, it is straightforward, and it is one of the many areas looked at by the administration where external contracting services may indeed prove more economical to the Government and provide a better quality of service and professionalism in certain circumstances.

The agencies, along with us, are looking at those options in several areas now, but they are moving with some care. I can assure you that the best interest of our clients is being cared for in addition to the savings.

Senator COCHRAN. Senator Kasten was here and has some questions that he will submit in writing. He had other commitments and couldn't stay for the duration of the hearing. I hope that you will be able to respond in a timely fashion to his questions, along with those submitted by Senator Mattingly.

Senator Burdick, do you have anything to add?

POLICIES ON INVENTORIES

Senator BURDICK. What is the policy, or what does Farmers Home do about land that is already in foreclosure?

Mr. CLARK. We have about 1,087,000 acres of inventory. We will not dump that land on the market in any way, or depress the land value around it. We are very careful, and we are working with SCS to do the things that need to be done, and to keep that land viable.

We are releasing that land in certain States, if indeed it will not depress the value. We sell it if the farmer next door has his eyes on the 200 acres next door, and we have the inventory. If he is willing to pay the market value, we will sell that land.

Again, the option under regulation goes to previous operators or previous owners. We need to go through that section, as well. I think we are very carefully moving on that and we are expecting to see all that inventory grow.

Senator BURDICK. Are you leasing some land?

Mr. CLARK. We are.

Senator BURDICK. How much have you leased back to the former owner?

Mr. CLARK. I don't think we have those numbers immediately available. Probably, I would suspect not a lot. It is a part of our process to go through that.

Senator BURDICK. Are there regulations out to State offices to submit to farmowners for lease-back?

Mr. CLARK. We just, within the last few days, put preliminary guidance out to our field offices. The answer is, yes.

Senator BURDICK. Is there insurance in the special occasions or otherwise that gives the landowner the priority in leasing?

Mr. CLARK. Yes, sir; there is. That could cause a problem in trying to locate that previous owner or borrower. Those are the instructions that need to be done.

COMMUNITY DEVELOPMENT PROJECTS

Senator BURDICK. You have indicated in your testimony that the Federal assistance to water and sewer projects, and other community development projects be part of a community development block grant through HUD. There is a problem. It seems that the projects in Farmers Home that you propose to terminate add up to more than $3 billion. The Community Development Block Grant Program doesn't even have $2 billion. What are we going to do about that?

Mr. CLARK. The private sector needs to get involved in that, Senator. There is availability of funds in the private sector that could fund some of these projects. It means a reduction. We have not been the biggest player.

Senator BURDICK. All of these programs add to $3 billion. The Block Grant Program doesn't have $3 billion.

Mr. NAYLOR. Senator, I think you will find that the availability of private sector funds has materially changed. Many communities find it easier to obtain private credit than to continue to go to our office. Many mortgage and commercial credit sources and security dealers are willing to provide the needed credit.

On the other projects within the community, they can do so in many cases. It has been fairly competitive and has been a pattern into which they have fallen. Increasingly, we cannot, will not, ever meet the full demand outstanding.

Some of the communities in the past simply waited until their turn came around. I remember, in the early seventies, that was a very common practice. When inflation was fairly low, you could perhaps do that. Then it became very expensive. The simple truth is that the Government is no longer fundamental in the financial market, and need not be the primary source of funds. The funds are there at a very competitive rate, and they are more accessible in small amounts than they used to be. That need can now be better filled by private sector funding.

Senator BURDICK. How many programs are there for the Community Development Block Grant Program? All I know is that it is under $2 billion.

Mr. NAYLOR. I don't have that number here, but we will supply it for the record.

Senator BURDICK. My staff tells me that it is $2.6 billion. Does that sound right?

Mr. NAYLOR. HUD's funds?

Senator BURDICK. Yes.

Mr. CLARK. I am not familiar with that. Ours is only $500 million.

Senator BURDICK. Very well.

Senator COCHRAN. Senator Specter.

FORECLOSURE NOTICES

Senator SPECTER. Thank you, Mr. Chairman.

I have a list of questions which I would like to submit for response to the record. But let me inquire at this time as to the status of the foreclosure issue.

We had hearings a few weeks ago on that subject, and a number of us expressed concern about the procedures that were being used by the Department of Agriculture on foreclosures this year. I would be interested to know what has intervened since that time? What kinds of notices are being sent out now on the issue of delinquency, and how serious is the problem of delinquences at this point compared to late January?

Senator Cochran has been in these hearings since he has been back. As a matter of fact, it was a high priority because of the concerns expressed in the farm community at that time.

Mr. NAYLOR. Senator, Mr. Clark will respond in more detail, but I think I can answer very simply. We maintain a running record of the total number of borrowers who have left the farming community. Specifically, I think that, in the area you are principally concerned with, our numbers to date indicate that we are tracking very comparably to the same level we have had over the last 4 or 5 years.

There has never been a policy of foreclosure. This administration is using the major tools available. The record clearly shows that to be the case, and this year is no exception.

STATUS OF OUTSTANDING LOANS

Senator SPECTER. When you say, "a major tool," Mr. Secretary, how many foreclosures have there been since January 1 of this year?

Mr. CLARK. Twenty-three, Senator.

Senator SPECTER. How many loans are in default?

Mr. NAYLOR. The first category, 3 years without payment on a loan, was about 27,000 out of 270,000 loans which are in that status.

Senator SPECTER. Three years or longer, how many loans?

Mr. NAYLOR. About 27,000.

Senator SPECTER. 27,000 loans, 3 years or longer, no payment on the principal or interest?

Mr. NAYLOR. That is correct.

Senator BURDICK. How many quit claim deeds have you received in lieu of foreclosure?

Mr. NAYLOR. That number is running about the same as last year. Historically, for about the last 5 years, we have between 5,000 and 7,000 producers leaving the programs for various financial reasons. The rate of leaving and returning is about the same this year. We continue to take care of about 97 to 98 percent of our borrowers.

I think it is an exceptional record when you consider that 275,000 borrowers cannot qualify for credit at any commercial establishment before they even come to our door. Despite the fact that we have been able to work with them in about 97 to 98 percent of the cases, we are averaging about 40,000 to 50,000 situations a year where we have made deferrals and other actions that have permitted our operators to continue to operate, as opposed to those that had to leave farming.

Mr. CLARK. We have 375 conveyances up to the end of last month.

Senator SPECTER. 375. What happens to the 5,000 to 7,000 that have left the farms? What happens in those situations?

Mr. NAYLOR. A variety of things, depending on the part of the country that they are in. If they are in the chairman's area, and in yours, Senator, they have off-farm income.

Senator SPECTER. That is only accounting for the farmers in my area and the chairman's area.

Mr. NAYLOR. I think it depends on the geographic area. Unlike my home State, where all farming employment is much more limited in rural communities, you have been fortunate with industry being relatively close to many of the rural towns, and there are employment opportunities.

DISPOSITION OF REAL ESTATE

Senator SPECTER. The question I have, Mr. Secretary, the 5,000 to 7,000 who left the farm, a substantial number of those who have left the farm, have they given up an interest in real estate?

Mr. NAYLOR. Yes; that would be a total departure from their doing business with us. It doesn't mean that some of them may not have other sources of funds, including family sources, but for our records, they are no longer farm operators.

Senator SPECTER. Do you anticipate that number of 5,000 to 7,000, that the Federal Government would ultimately foreclose on the real estate?

Mr. NAYLOR. Most of those would be conveyed to lenders, and the property is more likely to be in the hands of the Federal Land Bank if it is not to be in our hands. We are not a major real estate lender.

Senator SPECTER. What I am trying to understand is, are you just slow in reclaiming that land from whoever acquired the title?

When you have 23 foreclosures, and 375 conveyances, that is about 400 out of 1,000. You referred to 5,000 to 7,000.

Mr. NAYLOR. That is a very typical annual total, Senator. The majority of these remaining cases that will be sold out in this year, will occur later in the calendar year. I gave you the average number we had for each of the last 4 to 5 years, and I would expect a total this year at the end of the year to be about the same. But the majority of those cases, where they leave, occur later in the year.

At this point, we have not seen in this current year a number, but the trend is showing about the same number as we have had in the past years.

Mr. CLARK. There are almost 1,000 sales of property that we had an interest in. Farmers have actually sold out on their own, 940 after the end of March. So, there is activity in that direction as well on the part of the borrowers.

Senator SPECTER. Would you say that it is a matter of approach, the maximum extent possible that you try to work out these loans, which are in default, and try to schedule arrangements where the farmers can repay the loans, or some extension where there is a possibility that they can do so?

Mr. NAYLOR. Senator, we have a series of services that we go through with each borrower. We do not have any desire to own property or to be a holder of land. We have a record that I would put up second to none. I work with producers to enable them to continue an operation even under the most extreme financial stress.

The history and data support that, and we will continue to do so. It is our objective, as it always has been, to be compassionate and work with producers, and help them to stay in farming. We get no satisfaction seeing anyone not succeed. We do have, regrettably, in some areas in the country, the result of some unwise lending practices. For some operators who are so deeply stressed, there is probably little we can do for them, no matter how hard we try.

I have a few cases in a few States where we have met the asset ratio to 2, 3, 4, to 1, and where the debt service payment exceeds the gross income of the farm under any set of conditions. That is a tragic situation to occur, and there is probably no way those cases can be resolved, except to give the producer a fresh start.

We are in the process of working through those with some of the provisions that the chairman mentioned earlier, with regard to homestead and lease-back, and other opportunities to help those kinds of cases where it is clear that there are problems.

Senator SPECTER. Thank you very much.

PREPARED STATEMENT

Senator COCHRAN. We have a prepared statement which Senator McClure has requested that we make a part of the record, and that will be included at this point.

[The statement follows:]

STATEMENT OF SENATOR MCCLURE

Farmers Home Administration has been under much pressure for the past several years because of the worsening farming situation prevalent in many areas of this country. Idaho has seen its share of problems in agriculture. I want to state first that Farmers Home Administration, at least in Idaho has tried to respond to the needs of Idaho farmers to the best of the agency's ability and within the law. It has been difficult to continue to administer programs efficiently and effectively during times of budget cuts and changing programs.

I personally met with Mr. Clark and Ms. Lawrence this month to look into Idaho problems and solutions to these problems and they have both been very helpful and understanding while at the same time explaining the limitations which FmHA works under. The focus of the agency is changing from that of a direct lender of last resort to the guarantor of loans. This, I feel, will help correct some of the mistakes of the past which have placed borrowers in debt beyond any reasonable expectation of repayment.

Direct lending of 100 percent of the cost of getting into farming has been the downfall of many individuals who perhaps should not have been in farming at all.

This does not mean that there is no place for FmHA, there is a need to be served by FmHA and it can best be done through guaranteed lending to those who do have repayment ability.

SUBMITTED QUESTIONS

Senator SPECTER. Mr. Chairman, I do have some questions for the record.

Senator COCHRAN. Thank you, Senator.

We trust those questions can be answered in a timely fashion for the record. Senator Burdick also has some additional questions which he will submit in writing.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

REVOLVING FUNDS

Question: For the record, please provide a report on the activities and expenses of each revolving fund of FmHA.

Answer: We will submit for the record Operating Income and Expense Statements which provide an overview of the activities and expenses of FmHA's three major public enterprise funds: the Agricultural Credit Insurance Fund, the Rural Housing Insurance Fund, and the Rural Development Insurance Fund.

[The information follows:]

AGRICULTURAL CREDIT INSURANCE FUND

Operating Income and Expense Statement
(In Thousands of Dollars)

	Income			Expense				Net Total
	Interest	Other	Total	Interest	Write-offs	Other	Total	
1985 Actual								
Farm ownership loans	$ 307,680	$ 4,941	$ 312,621	$1,030,540	$ 8,567	$ 39,992	$1,079,099	$ -766,478
Farm operating loans	648,109	1,941	650,050	883,718	37,379	12,610	933,707	-283,657
Recreation loans	4,121	186	4,307	9,938	1,135	110	11,183	- 6,876
Emergency disaster loans	813,514	4,586	818,100	1,385,050	64,669	86,173	1,535,892	-717,792
Emergency livestock loans	525	1	526	--	--	4,012	4,012	-3,486
Economic emergency loans	417,618	2,865	420,483	576,329	34,957	36,084	647,370	-226,887
Soil and water conservation loans	24,544	141	24,685	41,451	587	949	42,987	-18,302
Irrigation and drainage loans	950	9	959	2,809	--	214	3,023	-2,064
Grazing loans	2,738	6	2,744	7,023	28	215	7,266	-4,522
Indian tribe land acquisition loans ...	4,551	12	4,563	11,258	--	213	11,471	-6,908
Watershed protection and flood prevention loans	3,118	11	3,129	10,346	--	214	10,560	-7,431
Resource conservation and development loans	958	3	961	2,319	29	218	2,566	-1,605
Inactive loan programs	10	--	10	43	--	--	43	-33
TOTAL	2,228,436	14,702	2,243,138	3,960,824	147,351	181,004	4,289,179	-2,046,041

AGRICULTURAL CREDIT INSURANCE FUND

Operating Income and Expense Statement

(In Thousands of Dollars)

	Income			Expense				Net Total
	Interest	Other	Total	Interest	Write-offs	Other	Total	
1986 Estimated								
Farm ownership loans	$ 321,358	$ 8,611	$ 329,969	$1,098,764	$ 11,722	$ 34,001	$1,144,487	$ -814,518
Farm operating loans	676,931	3,382	680,313	1,033,279	51,143	10,713	1,095,135	-414,822
Recreation loans	4,306	324	4,630	10,449	1,553	68	12,070	-7,440
Emergency disaster loans	849,679	7,992	857,671	1,455,807	88,484	60,026	1,604,317	-746,646
Emergency livestock loans	559	2	561	--	--	3,417	3,417	-2,856
Economic Emergency loans	436,174	4,993	441,167	605,778	47,831	44,451	698,060	-256,893
Soil and water conservation loans	25,626	246	25,872	43,588	802	584	44,974	-19,102
Irrigation and drainage loans	1,001	16	1,017	2,956	38	131	3,125	-2,108
Grazing loans	2,863	10	2,873	7,369	--	133	7,502	-4,629
Indian tribe land acquisition loans	4,748	21	4,769	11,823	--	131	11,954	-7,185
Watershed protection and flood prevention loans	3,258	19	3,277	10,866	--	131	10,997	-7,720
Resource conservation and development loans	1,001	5	1,006	2,456	40	134	2,630	-1,624
Inactive loan programs	--	--	--	--	--	--	--	--
TOTAL	2,327,504	25,621	2,353,125	4,283,135	201,613	153,920	4,638,668	-2,285,543

AGRICULTURAL CREDIT INSURANCE FUND

Operating Income and Expense Statement
(In Thousands of Dollars)

	Income			Expense				Net Total
	Interest	Other	Total	Interest	Write-offs	Other	Total	
1987 Estimated								
Farm ownership loans	$ 335,514	$16,905	$ 352,419	$1,125,459	$ 13,771	$ 51,146	$1,190,376	$ -837,957
Farm operating loans	706,750	6,641	713,391	1,105,474	60,086	20,520	1,186,080	-472,689
Recreation loans	4,496	636	5,132	10,625	1,824	47	12,496	-7,364
Emergency disaster loans	887,107	15,690	902,797	1,480,327	103,956	39,209	1,623,492	-720,695
Emergency livestock loans	583	3	586	--	--	4,794	4,794	-4,208
Economic emergency loans	455,388	9,802	465,190	615,981	56,194	75,712	747,887	-282,697
Soil and water conservation loans	26,755	482	27,237	44,322	943	403	45,668	-18,431
Irrigation and drainage loans	1,045	31	1,076	3,006	--	91	3,097	-2,021
Grazing loans	2,989	21	3,010	7,493	45	91	7,629	-4,619
Indian tribe land acquisition loans	4,957	41	4,998	12,022	--	91	12,113	-7,115
Watershed protection and flood prevention loans	3,402	38	3,440	11,049	--	91	11,140	-7,700
Resource conservation and development loans	1,045	10	1,055	2,498	47	92	2,637	-1,582
Inactive loan programs	--	--	--	--	--	--	--	--
TOTAL	2,430,031	50,300	2,480,331	4,418,256	236,866	192,287	4,847,409	-2,367,078

Rural Housing Insurance Fund

Operating Income and Expense Statement
(In Thousands of Dollars)

	Income			Expense				Net Total
	Interest	Other	Total	Interest	Write-offs	Other	Total	
1985 Actual								
Loans:								
General purpose loans	$1,240,437	$ 1,760	$1,242,197	$2,855,455	$ 17,679	$134,178	$3,007,312	-$1,765,115
Domestic farm labor loans	1,029	8	1,037	16,081	--	194	16,275	-15,238
Rental or cooperative loans	190,553	402	190,955	817,075	102	3,579	820,756	-629,801
Site loans	50	1	51	115	--	427	542	-491
TOTAL	1,432,069	2,171	1,434,240	3,688,726	17,781	138,378	3,844,885	-2,410,645 1/
1986 Estimate								
Loans:								
General purpose loans	1,312,640	1,661	1,314,301	2,971,860	18,400	144,594	3,134,854	-1,820,553
Domestic farm labor loans	1,200	8	1,208	13,000	--	210	13,210	-12,002
Rental or cooperative loans	210,000	380	210,380	887,873	130	4,000	892,003	-681,623
Site loans	60	1	61	80	--	460	540	-479
TOTAL	1,523,900	2,050	1,525,950	3,872,813	18,530	149,264	4,040,607	-2,514,657 1/
1987 Estimate								
Loans:								
General purpose loans	1,320,700	1,661	1,322,361	2,963,440	18,930	185,600	3,167,970	-1,845,609
Domestic farm labor loans	1,246	8	1,254	13,052	--	270	13,322	-12,068
Rental or cooperative loans	223,400	380	223,780	908,170	140	5,320	913,630	-689,850
Site loans	62	1	63	81	--	594	675	-612
TOTAL	1,545,408	2,050	1,547,458	3,884,743	19,070	191,784	4,095,597	-2,548,139 1/

1/ Does not include rural rental assistance payments made in the amount of $103,810,000 in FY 1985, $163,420,000 in FY 1986 and $151,868,000 in FY 1987.

Rural Development Insurance Fund

Operating Income and Expense Statement
(In Thousands of Dollars)

	Income			Expenses				Net Total
	Interest	Other	Total	Interest	Write-offs	Other	Total	
1985 Actual								
Water and waste disposal loans:								
Water supply	217,137	38	217,175	572,760	207	7	572,974	-355,799
Waste disposal	83,190	13	83,203	223,778	—	1	223,779	-140,576
Combination water supply and waste disposal	25,820	4	25,824	71,491	—	235	71,726	-45,902
Community facility loans	81,400	16	81,416	209,966	—	319	210,285	-128,869
Business and industrial loans	50,607	3,172	53,779	15,866	296	47,637	63,799	-10,020
TOTAL	458,154	3,243	461,397	1,093,861	503	48,199	1,142,563	-681,166
1986 Estimate								
Water and waste disposal loans:								
Water supply	230,612	2	230,614	620,196	647	489	621,332	-390,718
Waste disposal	87,023	—	87,023	234,979	—	31	235,010	-147,987
Combination water supply and waste disposal	28,106	—	28,106	82,242	—	256	82,498	-54,392
Community facility loans	93,374	—	93,374	223,230	—	162	223,392	-130,018
Business and industrial loans	48,500	4,350	52,850	12,748	—	39,750	52,498	+352
TOTAL	487,615	4,352	491,967	1,173,395	647	40,688	1,214,730	-722,763

Rural Development Insurance Fund

Operating Income and Expense Statement - Continued
(In Thousands of Dollars)

	Income			Expenses				Net Total
	Interest	Other	Total	Interest	Write-offs	Other	Total	
1987 Estimate								
Water and waste disposal loans:								
Water supply	244,772	2	244,774	620,955	700	37,454	659,109	-414,335
Waste disposal	92,988	—	92,988	242,115	—	3	242,118	-149,130
Combination water supply and waste disposal	28,596	—	28,596	85,090	—	223	85,313	-56,717
Community facility loans	96,590	—	96,590	230,459	—	188	230,647	-134,057
Business and industrial loans	49,200	3,630	52,830	15,656	—	37,630	53,286	-456
TOTAL	512,146	3,632	515,778	1,194,275	700	75,498	1,270,473	-754,695

HOUSING PROGRAMS

Question: If the rural housing program were transferred to HUD, how many vouchers would be available for rural housing?

Answer: We understand that HUD's fiscal year 1987 budget request will cover 50,000 units. The funding is proposed to be distributed on a 50/50 rural/urban ratio; therefore, approximately 25,000 vouchers would be available for rural housing.

Question: How would the recipients be chosen?

Answer: Rural recipients would have to meet the same eligibility requirements as any other applicant for the HUD program.

RURAL DEVELOPMENT LOAN FUND

Question: In the farm bill, the Rural Development Loan Fund was transferred from the Department of Health and Human Services to Farmers Home. I wrote to you on March 13, asking the progress of the implementation of this transfer. I appreciated your prompt response to that letter, March 31, and I would like to get an update on the response you sent me.

In that response, you stated that the $13.8 million unobligated balance of the RDLF had been proposed for rescission, and that it was unclear as to whether the outstanding loan portfolio, about $28 million, was indeed transferred in the Farm Bill. I have received documentation from HHS and the Office of Management and Budget which indicates their understanding of Congressional intent in this matter, that being that the transfer did include that $28 million. What is the current status of this transfer?

Answer: We are currently working with the Department of Health and Human Services to complete the necessary documentation for formal transfer of this program.

Question: Will the money proposed for rescission now be obligated? (The rescission proposal expired on April 15, 1986.)

Answer: FmHA is currently preparing draft regulations in order to implement the new Rural Development Finance Corporation Grant program. Upon completion of this process, the funds will be available for immediate obligation.

Question: How do the goals of the RDLF compare to the goals of the Rural Development Insurance Fund, which has been under this Subcommittee's (and Farmers Home's) jurisdiction for some time?

Answer: The goals of the Rural Development Insurance Fund are primarily oriented toward development of infrastructure in the rural area; i.e., fire stations, hospitals, water and waste systems, industrial development, etc. The goals of the RDLF are more oriented toward economic opportunities through commericial enterprises and profit-making businesses.

CERTIFICATES OF BENEFICIAL OWNERSHIP

Question: In section 615 of our bill (general provision), we stipulate that certificates of beneficial ownership (CBO's) shall be sold at a level which is at least 65 percent of the value of the loans closed during the fiscal year. What problems does that requirement cause?

Answer: Since last year when we informed your Committee that meeting a minimum level of sales requirement would pose a problem for the Agency, we received an opinion from the Office of General Counsel that indicates the Agency would be in compliance. The opinion was based on their contention that pledging new loans as collateral for previously sold CBO's, to compensate for principal repayments and other reductions in the principal value of previously sold loans, would constitute a "sale" of the new loan. When these "sales" are added to the regular sales of CBO's to the Federal Financing Bank, the Agency should easily be in compliance with the 65 percent mandate.

Question: I understand that the budget reconciliation act prohibits Farmers Home Administration from selling any CBO's from the Rural Housing Insurance Fund except on existing, outstanding loans. What benefits or problems will this cause?

Answer: Farmers Home Administration is currently assessing the situation created by the Budget Reconciliation Act. We have requested an opinion from the Office of General Counsel with regard to specific parts of Section 3006 of the Act. After receiving Counsel's opinion, we will be in a better position to answer your question.

Question: The budget proposes to delete section 624, concerning the Hawaii State Office. Do you have plans to move that office? If so, why?

Answer: FmHA has no plans to relocate this office at this time.

QUESTIONS SUBMITTED BY SENATOR MCCLURE

FARM PROGRAMS

Question: We know that FmHA's guaranteed loan program was not greatly utilized in 1985. How has the response been to guarantees thus far in 1986?

Answer: Of the $1,172,000,000 available in fiscal year 1985, $1,106,850,000 was obligated. So far in fiscal year 1986, 7,322 guaranteed operating loans totaling $711,356,160 have been obligated. During the same period in fiscal year 1985, 3,368 guaranteed operating loans totaling $393,488,680 were obligated. Demand for guaranteed operating loans from commercial lenders has greatly increased during the time frame.

Question: What are you doing to encourage participation in the guaranteed loan program?

Answer: FmHA has taken steps to increase participation in the guaranteed loan program by private credit sources. Some of the actions taken include faster processing of applications, guaranteed operating lines of credit and having more guaranteed funds available. Employees have been directed during training meetings with private lenders to insure that they are aware of FmHA's guaranteed program and the Agency's requirements to process a loan request.

Question: Will farmers and ranchers have access to adequate financial assistance from FmHA under the operating loan program for fiscal year 1986?

Answer: With the amount of insured and guaranteed loan authority at this time, it appears funding will be adequate through the spring lending season.

Question: FmHA is using $750 million transferred from other loan programs to make operating loans. How is this fund holding out?

Answer: Under the Secretary's interchange authority, $700 million has been transferred from the direct emergency loan program to the direct operating loan program, and $50 million has been transferred from the guaranteed Business and Industry program to the guaranteed operating loan program.

To date, we have obligated $600 million in insured operating loans out of the $700 million transferred from the emergency loan allocation. We expect that all transferred funds will be utilized.

Question: FmHA has implemented new regulations recently as a result of provisions in the Food Security Act of 1985. Two of these new regulations address leasebacks to borrowers who lose their farms. Can you tell us about these provisions?

Answer: FmHA has revised its regulations in accordance with the provisions of the Food Security Act of 1985 to provide previous owners or operators an opportunity to lease or buy back their farms. When FmHA inventory farm property becomes available for sale, the previous owner or operator of the property will be given the first opportunity to apply to purchase the property. If the previous owner or operator is not interested in purchasing the property, or the property is not available for sale, the previous owner or operator will be given the first opportunity to lease for up to 3 years with or without an option to purchase. Inventory property can be leased for an amount equal to that for which similar properties in the area are being leased or rented. Inventory property that is sold will be sold for a price that reflects the average income that may be reasonably anticipated to be generated from farming such property.

Question: What are FmHA's plans for the sale of inventory properties to new buyers in 1987?

Answer: FmHA is presently notifying the former owners or operators of their opportunity to purchase or lease the farm with or without an option to purchase. The previous owner or operator will be given 30 days to contact the FmHA county office. If they are not interested in the property, it can then be leased or sold to others.

FmHA State Directors will analyze the farm real estate market conditions within the geographic area of their jurisdiction and determine whether or not the sale of the FmHA inventory properties will have a detrimental effect on the value of farms within these areas. If they determine such sales will have a detrimental effect on farm values, the State Director will suspend the sale of FmHA farm inventory property.

HOMESTEAD PROGRAM

Question: Can you go over the details of FmHA's Homestead Program? How do you anticipate this program will be received by farmers in severe financial difficulty?

Answer: FmHA has adopted a dwelling retention program that implements the "Homestead Protection" provisions of the Food Security Act of 1985. This program applies to FmHA farm inventory property that was acquired as a result of FmHA foreclosure, voluntary conveyance, or conveyance from a trustee in bankruptcy when the borrower is still in possession of the residence. An FmHA farmer program borrower may apply to lease the residence and approximately 5 acres of land for a minimum of 3 years and a maximum of 5 years, with an option to purchase. Some of the eligibility requirements for this program are the following: the applicant must have had gross annual farm sales of at least $40,000 in at least 2 calendar years during the 5-year period of January 1, 1981, through December 31, 1985; the applicant and any spouse must have received at least 60 percent of their gross annual income from the farming operation during at least 2 years of the 5-year period; and the applicant must have possessed and occupied the dwelling and engaged in farming and ranching operations during the 5-year period. Applications for this program may be made until the program expires at close of business on December 22, 1988.

It is anticipated that the program will be well received by those farmers who have decided to discontinue farming but desire to retain their dwellings.

QUESTIONS SUBMITTED BY SENATORS BURDICK AND ANDREWS

INDIAN TRIBAL LAND ACQUISITION PROGRAM

Question: The Administration has not requested fiscal year 1987 funding for the Indian Tribal Land Acquisition Program [the only USDA program specifically for Indians under Farmers Home Administration] appropriated at $4 million in fiscal year 1986. This program, established in 1970, has been a vital resource for Tribal governments to purchase and consolidate reservation land:

29 Tribes currently have $83 million of outstanding loans and repayment has been solid. Recently, the program has taken on new importance, because of FmHA Instruction 1965A, which enables a Tribe to assume the loan of an individual Indian operator foreclosed by FmHA. This will prevent Indian land from going out of Indian ownership and control. Declining land prices, increased foreclosure of individual Indian loans and the unmet need for tribal land acquisition all support continued appropriations for the Tribal Land Acquisition Program. Why has funding not been requested for the Indian Land Acquisition Program?

Answer: The program has served its purpose and its use has diminished over the years. Since 1980, FmHA has made an average of three loans a year. These loans are limited to the acquisition of land within the defined boundaries of a Tribe's reservation. Most of the available land has been acquired by loans now outstanding.

Question: Farmers Home Administration has informed Congress, through the Select Committee on Indian Affairs, that it cannot provide information on the number of loans made to Indians on reservations which are under foreclosure. It would be simple to obtain this information by contacting the county offices near reservations. Agriculture on the Great Plains is a significant part of the reservation economies; income from agriculture provides revenue and employment for individual operators, Tribal governments, and individual landowners who lease land to ranchers and farmers. Please provide statistics on: (a) the number of FmHA loans made to Indian operators on reservations which have been foreclosed, including the amount of land FmHA currently holds on reservations; (b) the number of loans which are under current foreclosure proceedings; and, (c) the number of loans which are at risk of foreclosure.

Answer: Requests for the Agency to assemble statistical data on the number of FmHA loans made to Indian farmers on the reservation with financial problems and/or at risk of foreclosure has been infrequent. Information is not collected and reported in the format requested. However, of the 486 farm ownership loans outstanding to Indian farmers, only a few farm ownership loans may have been authorized on trust land with the permission of the Indian Tribe and Bureau of Indian Affairs (BIA). The BIA is notified by FmHA when loan making and servicing actions are contempleted on trust land.

Question: The Farmers Home Administration in North Dakota has established a special function called the Indian liaison to enable the Agency to work more effectively with Indian operators on reservations who have unique needs and problems. This effort has provided expertise in a number of areas and is well received by the Tribes and individual Indian operators: loans are processed and evaluated in conjunction with the Bureau of Indian Affairs; there is a single contact person with a working knowledge of the Indian situation; problem loans are addressed to avoid unsolvable problems; and the State and central offices are advised of problems on reservations and how to address them. Will the model Indian liaison program in North Dakota be extended to other States where there is a heavy portfolio of loans to Indians on reservations?

Answer: The Indian liaison program in North Dakota began many years ago as an outreach effort to open up the communication with the Indian population. These efforts were expanded to most States where there is a heavy portfolio of loans to Indians on reservations. The head of the unit has been identified as the Indian program coordinator. If we believe there is a need to expand the unit's functions, the Agency has in place within its organizational structure the means to do so.

QUESTIONS SUBMITTED BY SENATOR KASTEN

FORECLOSURE PROCEEDINGS

Question: Mr. Clark, I'd like to follow up on the hearing we had in this subcommittee last winter, on the subject of those "Notices of Intent to Take Adverse Action."

As the members of this subcommittee will remember, these were notices to be sent to all Farmers Home borrowers more than 10 days and $100 delinquent. Formal notices of intent to take adverse action [that is, foreclosure] were to be sent only to those more than 1 year delinquent, and these borrowers had 30 days to contact the Agency to work out their loan problems. Where do we stand on all this?

Answer: We will submit a table showing the result of notices sent to FmHA borrowers in Category I and II:

[The information follows:]

Borrower Defaults Classified
As of 3/15/86 Report

FP Borrowers in Default	Number	Percent of Total Borrowers in Default
Category I (monetary) Defaults over 3 years	21,632	34.2
Category II (monetary) Defaults of 1-3 years	33,248	52.5
Nonmonetary Defaults	8,431	13.3
TOTAL BORROWERS CLASSIFIED	63,311	100.0

Question: How many foreclosures have resulted, nationally and in Wisconsin? How many of these troubled borrowers have you been able to help? How many cases are still unresolved one way or the other?

Answer: As of March 31, 1986, FmHA had completed 34 foreclosures nationally. There were two foreclosure actions completed in Wisconsin as of March 31, 1986. There are 60,661 total borrowers whose loan defaults are unresolved. There are 21,299 Category I borrowers (monetary defaults over 3 years), 31,184 Category II borrowers (monetary defaults of 1-3 years), and 8,178 nonmonetary default borrowers.

CONSERVATION EASEMENT PROGRAM

Question: Mr. Clark, the Conservation Title of the Farm Bill provided for a Conservation Easement Program. Under this program, Farmers Home Administration borrowers could have some of their debt set aside if they agreed to put some of their most fragile land into long-term protective cover such as trees. How soon may we expect this program to commence? When will regulations needed to allow implementation of this program be issued?

Answer: FmHA is in the process of developing the regulations on the Conservation Easement Program. It is estimated that the regulations will be in the FmHA field offices around December 1986.

QUESTIONS SUBMITTED BY SENATOR SPECTER

HOUSING PROGRAMS

Question: The 1987 budget proposes the transfer of all low-income housing loan and rental assistance to the Department of Housing and Urban Development. These programs have been extremely important to Pennsylvania citizens. Are these programs being transferred to HUD intact or is this transfer one involving funding reduction? Please provide for the record, detailed funding tables by program for fiscal year 1985 through fiscal year 1987 showing both HUD and FmHA resources for such programs.

Answer: The main thrust of the Administration is to centralize all Federal housing assistance under the Department of Housing and Urban Development. That is the reason for our Agency advocating that HUD provide the housing assistance in rural areas. The centralization pursued will result in budgetary and program improvements which could result in savings in program costs.

We shall submit for the record the information regarding the funding of the programs under HUD and FmHA.

[The information follows:]

Farmers Home Administration
Funding of Low-Income Rural Housing Loans and Rental Assistance Payments, Fiscal Years 1985-1987
(In Thousands of Dollars)

Program	FY 1985	FY 1986[a]	FY 1987
Section 502 low-income housing loans	$1,789,553	$873,800[b]	--
Section 504 very low-income housing loans	7,897	7,355[b]	--
Section 514 domestic farm labor loans	17,588	11,484	--
Section 515 rental housing loans	903,336	436,900[b]	--
Section 521 rental assistance	168,244	160,310	--
Section 516 farm labor grants	12,138	10,767	--
Section 523 mutual and self-help grants	10,754	10,174	--
Section 504 very low-income repair grants	12,498	11,891	--
Section 523 self-help site loans	1,275	--	--
Section 509 compensation for construction defects	527	713	--
Section 533 rural housing preservation grants	--	19,140	--
Total	$2,923,810	$1,542,534	--

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[a] Reflects the sequestration of funds by the Balanced Budget and Emergency Deficit Control Act of 1985.

[b] In addition to the sequestration of funds, reflects a $706 million proposed deferral distributed as follows:

Section 502 - $466 million
Section 504 - 7 million
Section 515 - 233 million
Total - $706 million

Department of Housing and Urban Development[1/]
Funding of Low-Income Housing and Rental Assistance Payments, Fiscal Years 1985-1987[2/]
(In Thousands of Dollars)

Program Obligations	FY 1985	FY 1986	FY 1987
Lower income housing (Section 8)	$6,848,611	$6,200,000	$5,500,000
Public & Indian housing	3,344,752	3,200,000	2,200,000
Rent supplement	78,679	51,760	46,251
Homeownership and rental housing assistance (Section 235 & 236)	255,249	270,074	54,108
Rental housing development grants	314,600	77,400	—
Rental rehabilitation grants	152,596	79,471	—
Housing for the elderly or handicapped	554,769	541,550	542,006
Urban homesteading	11,320	13,592	12,000

[1/] Selected HUD programs considered to be directed to low-income families.

[2/] Additional assistance is provided under two other budget accounts.

Question: With a severe lack of mortgage funds available in many rural areas, why are you proposing to eliminate very low-income repair loans? Please provide for the record details on what your budget request was of the Secretary, and what it was to OMB for this program.

Answer: The proposal is primarily based on the need to reduce the Federal deficit and the availability of similar housing assistance programs under the Department of Housing and Urban Development.

The Agency request of a $5 million program for very low-income housing repair loans in fiscal year 1987 was not approved by the Department; therefore, no request was sent forward to the Office of Management and Budget.

FARM PROGRAMS

Question: You are proposing legislation that will eliminate the insured farm ownership loan program in 1987. Has anyone introduced such legislation? Please submit for the record what budget levels were submitted for this program to the Secretary and to OMB.

Answer: The budget does propose to terminate new real estate lending by the Agency. However, real estate credit for existing borrowers will continue to be available through reamortization and rescheduling of loans secured by real estate. In fiscal year

1987, the Agency's request through the Secretary to OMB for funding the farm ownership loan program amounted to $400 million for guaranteed loans.

RESOURCE CONSERVATION AND DEVELOPMENT LOANS

Question: While you indicate that the $2 million available for resource conservation and development loans are minor amounts, there appears to be significant interest in this program in fiscal year 1986 with all funds shown in the Explanatory Notes as asked for by the States. Why are you proposing to eliminate this program given the need to increase our conservation efforts?

Answer: The Administration's budget proposal submitted to the Congress proposes to terminate Soil Conservation Service's (SCS) Resource Conservation and Development (RC&D) program and Farmers Home Administration's RC&D program. The proposal reflects the intent of the Administration to limit the growth of Federal outlays and reduce dependence on the Federal Government. Rural communities will rely on the private sector.

The $2 million program level is allocated to the States to be used only if the need arises and only on the basis of approved loan applications submitted by those States. A $2 million program level was allocated to the States in fiscal year 1985 but only one loan was obligated in the amount of $500,000.

We feel that, with the termination of SCS cost share and technical assistance under the RC&D program and considering the critical need to control the Federal deficit, the RC&D loan program should be terminated.

TRANSFER OF PROGRAMS TO HUD

Question: Pennsylvania was one of the largest users of the Water and Waste Disposal Loan Program and Community Facilities loans in 1986. The 1987 budget proposes to merge these programs into HUD's Community Development Block Grant Program. Please provide for the record for fiscal years 1985 through 1987, detailed data on both FmHA and HUD funding for these programs.

Answer: We will submit a table showing the funding for fiscal years 1985 through 1987 for the FmHA Water and Waste Disposal loan and grant programs, the Community Facility loan program, and the HUD Community Development Block Grant program.

[The information follows:]

Community Development Programs

	FY 1985 Actual	FY 1986 [a]	FY 1987 President's Budget
	(In Millions of Dollars)		
FmHA			
Water and Waste Loans	$340	$325.4	0
Water and Waste Grants	115	109.4	0
Community Facility Loans	115	95.7	0
HUD			
Community Development Block Grants	3,456	2,932	$2,124
Deferred		500	
Rural Share	1,036.8	879.6	743.4
After Deferral		729.6	

[a] Reflects the sequestration of funds by the Balanced Budget and Emergency Deficit Control Act of 1985.

Question: With the virtual elimination of the Farmers Home Administration proposed and the transfer of these programs to HUD, will there be any adverse impacts on the users of these programs?

Answer: The fiscal year 1987 budget proposal reflects the intent of the Administration to limit the growth of Federal outlays and reduce dependence on the Federal government as a supplier of credit. Rural communities will rely on the private sector, the Community Development Block Grant program administered by the HUD and grants administered by the Environmental Protection Agency. The Administration has proposed to increase the rural share of HUD's Community Development Block Grant funds from 30 to 35 percent of the total amount available.

STAFFING REQUIREMENTS

Question: With increasing loan activity, it has become clear that many FmHA offices do not have sufficient staff to adequately meet farmer needs. The fiscal year 1987 budget proposes further staff reductions. Why is the need for personnel going to decline?

Answer. For fiscal year 1986, the Agency did provide additional resources to our field offices to meet farmer needs. On

February 14, 1986, 200 additional temporary staff years and $1.5 million in overtime were distributed to our State Offices. Again in March, after receiving approvals from the Office of Management and Budget, the Agency immediately proceeded to distribute an additional 411 temporary staff years, $2,013,475 in overtime, and $958,600 of travel. For fiscal year 1987, the President's budget reflects funding only for insured and guaranteed farm operating loans and a small interest buy-down program. No funding has been proposed for the Housing and Rural Development Programs; therefore, the staff resources needed will be appropriately reduced.

We believe the proposed 11,000 staff years will be adequate for the administration of the proposed funded programs.

RURAL COMMUNITY FIRE PROTECTION

Question: The budget proposes that Rural Community Fire Protection Grants be merged into HUD's Community Development Block Grant program. These funds have traditionally leveraged the use of Federal fire fighting dollars. Please provide for the record for fiscal year 1985 through 1987, a detailed listing of funds available from HUD's CDBG program and from FmHA for this program.

Answer: We will submit for the record a table which reflects fiscal year 1985 actual obligations as well as fiscal years 1986 and 1987 estimates as provided by the Forest Service. The 1987 column shows a zero program level since this program as currently authorized is recommended for termination. Comparable analysis of the Community Development Block Grant program, as administered by HUD, is not available. However, rural communities, acting through their State and local governments interested in such grants, would be eligible to compete for funding through the CDBG program.

[The information follows:]

Farmers Home Administration
GEOGRAPHIC BREAKDOWN OF OBLIGATIONS
1985 and Estimated 1986 and 1987

Rural Community Fire Protection Grants

	1985 Amount	Revised 1986 Estimate	Estimated 1987 Amount
Alabama...............	50,400	48,200	--
Alaska................	60,000	57,400	--
Arizona...............	46,400	44,400	--
Arkansas..............	51,700	49,400	--
California............	125,900	120,400	--
Colorado..............	59,700	57,100	--
Connecticut...........	23,300	22,300	--
Delaware..............	16,600	15,800	--
Florida...............	67,500	64,600	--
Georgia...............	61,300	58,600	--
Hawaii................	22,400	21,400	--
Idaho.................	35,100	33,600	--
Illinois..............	122,800	117,500	--
Indiana...............	84,000	80,400	--
Iowa..................	109,800	105,000	--
Kansas................	107,600	102,900	--
Kentucky..............	55,600	53,200	--
Louisiana.............	70,000	67,000	--
Maine.................	25,200	24,000	--
Maryland..............	35,100	33,600	--
Massachusetts.........	26,100	25,000	--
Michigan..............	88,300	85,000	--
Minnesota.............	124,400	119,000	--
Mississippi...........	51,400	49,200	--
Missouri..............	91,500	87,600	--
Montana...............	61,900	59,200	--
Nebraska..............	81,400	77,900	--
Nevada................	24,600	23,500	--
New Hampshire.........	18,100	17,300	--
New Jersey............	35,400	33,900	--
New Mexico............	29,000	27,800	--
New York..............	86,100	82,400	--
North Carolina........	73,100	70,000	--
North Dakota..........	99,300	95,000	--
Ohio..................	95,200	91,000	--
Oklahoma..............	62,800	60,000	--
Oregon................	42,600	40,800	--
Pennsylvania..........	95,500	91,400	--
Rhode Island..........	13,900	13,300	--
South Carolina........	47,000	45,000	--
South Dakota..........	76,300	73,000	--
Tennessee.............	58,100	55,600	--
Texas.................	164,300	157,000	--
Utah..................	30,900	29,600	--
Vermont...............	18,600	17,800	--
Virginia..............	50,100	47,900	--
Washington............	53,200	51,000	--
West Virginia.........	32,100	30,700	--
Wisconsin.............	82,700	79,100	--
Wyoming...............	24,000	23,000	--
Puerto Rico...........	14,100	13,500	--
Trust Territories......	14,100	13,500	--
Virgin Islands.........	14,100	13,500	--
Administration and Technical Assistance.	123,473	114,700	--
Total, Available or Estimate............	3,234,073	3,091,000	--

HOUSING PROGRAMS

Question: Please provide for the record, a detailed listing of funds for fiscal year 1985 through fiscal year 1987 from HUD's CDBG program and FmHA for very low-income housing repair grants.

Answer: During fiscal year 1985, our Agency used $12.5 million for the program. For fiscal year 1986, the funds available amount to $11.9 million after the sequestration process required under the Gramm-Rudman-Hollings Act. No request was made under the 1987 President's Budget. The funding of the Community Development Grants, FFB Direct Loans Account in the Department of Housing and Urban Development was $102.6 million for fiscal year 1985. For fiscal years 1986 and 1987 it amounts to $108 million and $155 million, respectively. However, we are not aware of how much of a block grant to a community is used for low-income housing repair grants.

Question: In fiscal year 1986, Pennsylvania will receive an estimated $806,000 for Rural Housing Preservation Grants. Like many other FmHA programs, it is proposed for consolidation into HUD. While it may be possible to successfully carry on this program in HUD, the language in the Explanatory Notes seems to indicate that "there is no reason to extend the life of a program that has not even started operations." Is all this consolidation activity into HUD merely a smokescreen for deep budget cuts on vital rural loan and assistance programs? Please provide for the record for fiscal year 1985 through 1987, a detailed listing of HUD and FmHA funding for Housing Preservation Grants.

Answer: The complete statement to which you refer in our Explanatory Notes reads as follows: "In the face of overwhelming budget deficits, there is no reason to extend the life of a program that has not even started operations and for which there are other proven alternatives." Our feelings on this matter are still the same.

The $15 million and $5 million that were appropriated in fiscal years 1984 and 1985, respectively, and which were not used in the absence of program regulations, were reappropriated for this fiscal year. No funding was requested in the 1987 President's Budget. We believe that the Department of Housing and Urban Development could assist a similar program under the Rehabilitation Loan Fund for which $91.0 million were obligated in fiscal year 1985 and $104.7 million and $16 million are available for obligation in fiscal years 1986 and 1987, respectively.

QUESTIONS SUBMITTED BY SENATOR STENNIS

FARM PROGRAMS

Question: I keep hearing about how these new regulations for qualifying for a farm operating loan are preventing many farmers from qualifying. Please explain what the new requirements are.

Answer: On November 1, 1985, we initiated a policy requiring that applicants of FmHA loans show a positive cash flow for their farm operation before a loan would be made. Prior to that time, an existing borrower could be determined eligible for an FmHA loan if he/she were able to repay only a portion of the debt that was due.

Question: In Mississippi and nationwide, how many farmers, or what percentage of farmers, do you anticipate will not be able to obtain an operating loan this year because of these requirements?

Answer: We have collected data that shows approximately 40 percent of the borrowers nationwide who received loans in 1984 and 1985 were unable to achieve a positive cash flow from their farming operations. Although we have some additional servicing tools available in 1986, we expect a similar percentage of our applicants to be unable to show a positive cash flow.

Question: How are your State and county offices doing in approving or disapproving loans for the current crop year? Especially in Mississippi, are they giving the farmers plenty of notice about their applications so that they can plan for their crops before they have to plant?

Answer: Applications are being processed and farmers are notified of the status of their applications on a timely basis. In county offices where application activity has been heavy, State Directors have used temporary employees and overtime to process loans with a minimum of backlog.

HOUSING PROGRAMS

Question: The Administration proposes to abolish your rural housing programs in fiscal year 1987. In fact, a start has been made on this initiative with a deferral this year of $700 million. I intend to oppose both of these actions, but I am interested in the reasoning for these drastic cuts. Has there been a thorough review of alternative housing for low-income rural residents?

Answer: We believe that HUD, in combination with the private sector, can serve the housing needs of low-income rural households. HUD will distribute 50 percent of their funds for vouchers to nonmetro areas affording many of those households decent, safe, and sanitary housing.

Question: How many rural housing loan applications in Mississippi and nationwide will qualify for funding and yet have been put on hold due to a shortage in funding in the program?

Answer: Our Mississippi State Office has approximately 5,000 eligible rural housing applications on hand.

Nationwide, as of February 1986, there were approximately 40,000 loan applications that were eligible for funding. However, even if funds were available, it is doubtful if all of these loans could be approved due to the demand for serving our existing portfolio and other program loan making priorities.

SUBCOMMITTEE RECESS

Senator COCHRAN. This concludes today's hearing. The subcommittee will hold its next meeting tomorrow in the same room at 2 p.m. At that time, we will be hearing testimony from the representatives of the Food and Drug Administration and the Commodity Futures Trading Commission.

We thank you most sincerely, Mr. Naylor and Mr. Clark, for being here. In addition, thank you, Mr. Anderson and Mr. Sherman, for being at this hearing. Until tomorrow, the subcommittee will stand in recess.

[Whereupon, at 10:50 a.m., Tuesday, April 29, the subcommittee was recessed, to reconvene at 2 p.m., Wednesday, April 30.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

WEDNESDAY, APRIL 30, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2 p.m. in room SD–138, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran, Kasten, Mattingly, and Specter.

COMMODITY FUTURES TRADING COMMISSION

STATEMENT OF SUSAN M. PHILLIPS, CHAIRMAN

ACCOMPANIED BY:
MOLLY BAYLEY, EXECUTIVE DIRECTOR
RUSSELL CHERRY, BUDGET DIRECTOR

OPENING REMARKS

Senator COCHRAN. The subcommittee will please come to order. This afternoon, we continue our hearings to review the proposal for the Department of Agriculture and Related Agencies for fiscal year 1987 as reflected in the budget the President has submitted to the Congress.

Today, we are happy to welcome the Chairman of the Commodity Futures Trading Commission, Susan Phillips, along with the Commissioner of the Food and Drug Administration, Dr. Frank Young, from whom we will hear later. We will be looking at the proposed spending levels for these two agencies for the next fiscal year.

The CFTC regulates and oversees the commodity futures industry. It attempts to foster an open and competitive market environment, and at the same time protect the public and the markets from price manipulation and fraud. The work the Commission does is very important, in my judgment, and I think we have been fortunate to have the benefit of the leadership of Ms. Phillips as its chairman.

Rather than giving any overview of the budget proposal, I think I will leave that to our witnesses and recognize at this time the distinguished Senator from Georgia, Senator Mattingly, for any comments or statements that he might have at this point.

Senator MATTINGLY. Thank you, Mr. Chairman. I have no statement or comments at this time, but I welcome our witnesses today. As you know, this is a busy time of the year, when we all have subcommittee hearings, and I have to go to one of mine. Thank you very much.

Senator COCHRAN. Thank you for being here and contributing to the work of the committee.

Senator MATTINGLY. Thank you.

Senator COCHRAN. Ms. Phillips, you may proceed. We have a copy of your statement and will put that in the record in its entirety and encourage you to make any summary comments from it that you choose.

CFTC BUDGET AND STAFFING LEVELS

Ms. PHILLIPS. Thank you, Mr. Chairman and members of the subcommittee. I appreciate the opportunity to appear before you today representing the Commodity Futures Trading Commission. I am accompanied today by Molly Bayley, the Executive Director of the Commission, and Russell Cherry, our Budget Director.

I will highlight our statement today. The fiscal year 1987 budget request for the Commission is $30.4 million. This is an increase of $2.4 million over the fiscal year 1986 budget level after the imposition of the Gramm-Rudman-Hollings procedures. This requested level will allow the Commission to maintain its fiscal year 1986 operating level, meet the increases in rent and other fixed costs, and to fund 508 staff-years. This is an increase of 15 over the fiscal year 1986 staff-year level of 493. These increased staff-years will allow the Commission to restore some of the positions that have been lost in recent years, and the increase will be directed toward enforcement, market surveillance, and exchange oversight.

I might mention that both the fiscal years 1986 and 1987 staffing levels are substantially below the Commission's authorized fiscal year 1985 level of 533 staff-years. The Commission's staffing level has not kept pace with the growth in the industry. The volume of trading has grown approximately 300 percent over the last few years, while the CFTC staffing level has increased only 17 percent.

There has also been significant growth and change in the regulated industry. We have had two exchanges close; three have merged; we have four new ones; and we have a fifth one that recently applied as a contract market.

In addition, the markets have been becoming increasingly complex. We are dealing now with international linkages and changes in the underlying markets over which futures contracts are traded. Certainly, the agricultural markets reflect the effects of the new farm bill. International petroleum markets and financial markets continue to increase in importance.

MEETING THE CHALLENGE

The Commission has been able to meet this challenge of coping with its growing responsibility with a reduced staff by increasing its productivity, automating certain functions, streamlining certain of our programs, encouraging the States to take enforcement actions within their jurisdiction and delegating appropriate functions both to the exchanges and the National Futures Association under CFTC oversight.

All of these actions have been taken in the context of priorities which have been set by the Commission as part of a long-range planning process. We believe 1986 is a particularly challenging year for the Commission. As you probably know, the Commission is undergoing its reauthorization at the current time. I will mention briefly that the things we are asking for, we believe, are simple and straightforward.

We are looking to clarify and strengthen our enforcement authority; refine our oversight of NFA; streamline certain of our litigation processes; and remove leverage contracts from the Commission's jurisdiction.

None of these requests will increase the Commission's jurisdiction. Some of them will reduce our regulatory responsibilities, and others will permit the streamlining of our regulatory enforcement and litigation procedures.

We will certainly keep the committee and its staff informed as this process moves forward.

Other major projects that are before the Commission this year include audit trail. We are seeking to improve the audit trail capabilities of the exchanges and are actively working with the exchanges toward that end. We are also reviewing existing capital requirements which affect Futures Commission Merchants.

We are also in the process of reviewing the options pilot programs. I would say that those are the major projects that are before the Commission this year.

In conclusion, I would say that the Commission takes pride in its capability to accomplish a great deal with few resources, and we expect to continue to make great strides at the requested level for 1987 of $30.4 million.

I will be happy to answer any questions from the members of the subcommittee.

Thank you very much.

PREPARED STATEMENT

Senator COCHRAN. Thank you, Madam Chairman. Your complete statement will be made part of the record and we will proceed with the questions.

[The statement follows:]

STATEMENT OF SUSAN M. PHILLIPS

I appreciate the opportunity to appear before you today to summarize the fiscal year 1987 budget request of the Commodity Futures Trading Commission. I am accompanied today by Molly Bayley, the Executive Director of the Commission, and by Russell Cherry, the Budget Director.

The fiscal year 1987 budget request for the Commission is $30,418,000, an increase of $2,435,000 over the fiscal year 1986 post-Gramm-Rudman level. The requested fiscal year 1987 level will allow the Commission to maintain its fiscal year 1986 operating level, meet increases in rent and other fixed costs and to fund 508 staff-years, an increase of 15 over the funded fiscal year 1986 staff-year level of 493. Both the fiscal year 1986 and proposed fiscal year 1987 staffing levels are substantially below the Commission's authorized fiscal year 1985 level of 533 staff-years.

The Commission's staffing level has not kept pace with the growth in the industry. The volume of trading has grown from about 41 million contracts in fiscal year 1977 to 170 million in fiscal year 1985, an increase of over 300 percent, while CFTC staffing levels have increased only 17 percent during the same period. There has also been significant growth and change in the regulated industry. Two exchanges have closed, three have merged, and four new exchanges have opened. The average amount of customer funds carried by a futures commission merchant has grown from $8.7 million in 1980 to $27.6 million today.

The issues which face the Commission are also becoming increasingly complex. The Commission must constantly stay abreast of the cash markets as well as the futures and options contracts themselves in order to be able to anticipate, understand and respond to changes as they occur. For example, changes in the agricultural markets, such as the deregulation of rail rates and new storage and processing technologies, require considerable oversight to assure that terms and conditions of traditional contracts are kept in line with conditions in the cash markets. Other industries, such as the petroleum industry, are undergoing rapid changes as a result of international factors. The increasing internationalization of trading, through linked exchanges for instance, also places increased demands on the Commission.

The Commission has been able to meet the challenge of coping with its growing responsibilities with a reduced staff only by increasing productivity, automating certain functions, streamlining programs, encouraging State authorities to take enforcement actions within their jurisdiction, and delegating certain functions to the National Futures Association. All of these actions have been taken in the context of priorities set by the Commission as part of a planning process which identified the Commission's long-range goals and objectives. This process led to the development of the Commission's 5-year plan for the development of automated data processing tools. In addition, the Commission undertook a thorough review of its operating expenses to determine how it could reduce expenditures wherever possible.

Nevertheless, the Commission is facing a difficult year at the fiscal year 1986 staffing level. As you know, the Commission is currently involved in the reauthorization process. The reauthorization being sought by the Commission is fairly simple and straightforward—the Commission is seeking several changes in its legislation to clarify and strengthen its enforcement authority, to refine the Commission's oversight of NFA, to remove leverage contracts from the Commission's jurisdiction, and to extend the Commission's authorization for 6 years. None of the Commission's legislative requests will increase its jurisdiction. Some will reduce its regulatory responsibilities and others will permit streamlining of regulatory, enforcement, and litigation procedures. Despite this limited reauthorization agenda, the Commission expects that a great deal of staff time will be demanded to accomplish this legislative initiative. Should the Commission be unsuccessful or be asked by Congress to assume new, unanticipated responsibilities, the Commission's budget request may be amended or supplemented.

Another major project during fiscal year 1986 will be implementation of the audit trail rules. The Commission published these rules on December 27, 1984, seeking comment on ways to improve exchange audit trails for market surveillance and enforcement purposes. The Commission received numerous comment letters and also received encouragement to adopt the rules from this subcommittee in its report on the Commission's fiscal year 1986 budget request. The rules, which require that the actual execution time of each futures and options trade be recorded in increments of no more than 1 minute, were adopted unanimously by the Commission on January 14, 1986. The rules do not specify the method for meeting this trade-timing standard, but permit each exchange to comply with the standard as it chooses. For instance, an exchange could use manual recordation, a technology-assisted system, order "exit" times or a combination of these or any other approach which meets the standard. The exchanges have until October 1, 1986, to implement the new standard. Three months after the standard becomes effective, the exchange must be able to demonstrate that they are using this trade register data to reconstruct trading accurately and rapidly in order to identify and prove or disprove trading abuses.

In conclusion, to accomplish the Commission's goals and to address the anticipated workload for fiscal year 1987, the Commission requests a fiscal year 1987 appropriation of $30,418,000. This amount will maintain the Commission's fiscal year 1986 operating level and fund an increase of 15 staff-years. The additional staff-years would be directed to crucial areas in enforcement and market surveillance, and to oversight of self-regulatory organizations. The Commission takes pride in its ability to accomplish a great deal with few resources, and expects to continue to make great strides at the requested fiscal year 1987 level.

I will be happy to answer any questions from members of the subcommittee.

FUNDING REQUIREMENTS AFTER REAUTHORIZATION

Senator COCHRAN. If the reauthorization bill which you discussed is signed into law with no major changes from that which was reported by the Senate committee, would your request be sufficient to carry out the responsibilities that the Commission will have under the new law?

Ms. PHILLIPS. Yes, sir; we believe so. I might mention that on the House side, they have not yet gone to full committee markup. It is now tentatively scheduled for next week, and there are some amendments that are being considered which may alter that.

But the Senate bill, which I understand has just been filed, would not affect our request.

Senator COCHRAN. I hope you will keep in touch with us as the bill goes through the legislative process, and if it appears that some changes in funding may be justified on the basis of changes in legal responsibilities, I hope you will make the committee aware of that.

Ms. PHILLIPS. Absolutely. We would be glad to do so. Thank you.

INCREASED RENTAL COSTS

Senator COCHRAN. I notice that in the budget request, the item of rental payments is increased to $4.1 million from a level of $2.97 million for this fiscal year. What is this? Do you have a mean landlord? [Laughter.]

Ms. PHILLIPS. We had a 10-year lease, when the Commission was first begun. It was renegotiated within the last couple of years. That does reflect the increase in rates that have occurred since 1975.

We did an extensive comparison of what we could have obtained utilizing GSA space, and this is more favorable than we would have been able to get were we to move into that kind of facility.

So we do feel that this is appropriate and helpful that we are able to stay in the same spot at a more favorable rate.

EFFECT OF SEQUESTER

Senator COCHRAN. Was the Commission affected at all by the sequester order under the Gramm-Rudman-Hollings bill, and if so, how?

Ms. PHILLIPS. Yes, sir; we handled it by instituting a hiring freeze late last summer. It became effective in the fall, because we were not sure what the final funding level was going to be.

When we found out what the final appropriations level would be in December, it was somewhat higher than had been originally requested in the President's budget. So when Gramm-Rudman, the sequestration order, came, that knocked us back down to about the level that the

President had originally requested. So we have had a reduction in staff of about 40 people, which is about an 8-percent decrease. We handled it by attrition.

So I would say it has really been by attrition that we prepared for and responded to the Gramm-Rudman-Hollings bill.

AGRICULTURAL OPTIONS

Senator COCHRAN. What is your evaluation of the agricultural options pilot program?

Ms. PHILLIPS. We are very pleased with the progress of that program, and, in fact, recently expanded the program from two to five options per exchange. The recommendation has a layover period in Congress for 30 days, and that expansion currently is in the layover period.

I might mention that that has been a subject both in the House and the Senate as part of our reauthorization process, and there is a chance that we may lift the pilot status completely. Depending on which version gets passed, it may be lifted automatically.

Senator COCHRAN. I notice there was a program advertised—I am not sure who was sponsoring it—to acquaint farmers with the operation of the exchanges and futures trading to encourage them to use the market as a hedge and as a means of marketing their product.

Are you familiar with that effort? There was some notice in the newspaper back in my State that said that a certain number of farmers would be invited to participate in this program and they were guaranteed they wouldn't lose any money——

Ms. PHILLIPS. Whoops.

Senator COCHRAN [continuing]. Or something to that effect. There was a risk-free process, almost like going to school to learn about options. Are you familiar with that? Have you heard anything about that?

Ms. PHILLIPS. Let me say, if they were guaranteeing that there was no risk and no loss of money, I think our enforcement division might like to take a look at that. However, there are a number of educational efforts that are ongoing, particularly by the exchanges, certainly, but also at USDA. The new farm act also sets up a study, then a pilot program implemented by USDA with CFTC assistance, to encourage farmers to use agricultural options as a part of their marketing strategies. That program still is in the planning stages.

We directly have not had an educational effort ourselves, but we try to support, in particular, USDA's effort in that vein.

As part of our justification of the agriculture options program that we submit to Congress, we did look at who is using agriculture options, and we are seeing direct usage of options by farmers.

Senator COCHRAN. Senator Kasten?

Senator KASTEN. Mr. Chairman, I thank you. I have no questions of this witness.

SUBMITTED QUESTIONS

Senator COCHRAN. Ms. Phillips, we may have another question or two to clarify some points. We will submit those in writing and ask that you respond to them for the record.

Ms. PHILLIPS. Thank you very much.

Senator COCHRAN. Thank you for being here and for cooperating with our committee.

Ms. PHILLIPS. Thank you. We appreciate your support.

[The following questions were not asked at the hearing but were submitted for response for the record:]

COMMODITY FUTURES TRADING COMMISSION

QUESTIONS SUBMITTED BY SENATOR COCHRAN

LEGAL DEFENSE FUND

Question: Last year in response to the "audit trail" issue, the Chicago Board of Trade set up a "legal defense fund" of $1 million to challenge CFTC decisions. What effect does this have on your agency?

Answer: To date, the CBT has not used any of these funds to challenge the CFTC in court on the audit trail or any other issue. If CBT did institute litigation, the Commission would represent itself as it does in all civil litigation except in the Supreme Court.

Question: Does CFTC use its own resources to defend itself against litigation, or would the Justice Department be responsible for this? (In other words, who pays?)

Answer: The CFTC represents itself in all civil litigation. The Justice Department brings criminal actions arising from the Commodity Exchange Act.

AUDIT TRAIL

Question: What is the status of the "audit trail" issue?

Answer: As you know, on January 14, 1986, the Commission unanimously approved amendments to Commission Regulation 1.35 which establish a performance standard for improved audit trails and trade reconstruction abilities on the exchanges. Since that time the Chicago Board of Trade and Chicago Mercantile Exchange have proposed a concept for potential compliance with those amendments called the Computerized Trade Reconstruction System -- CTR. The exchanges have demonstrated their concept for Commissioners and staff and made a written submission describing the approach. The Commission has stated that, based upon the exchanges' representations of the time and sequencing accuracy of their proposed system, their proposal has the capability of meeting the standards set forth in the amendments. Based upon this dialogue, the two exchanges have indicated that they are going forward with the implementation of their proposal.

Pursuant to the amendments, all exchanges are required to submit reports to the Commission by July 1, 1986, on the method selected for compliance with the Commission's performance standard. Thereafter, compliance is to be phased in, with the exchanges to begin collecting appropriate trade timing data on October 1, 1986. Beginning on January 1, 1987, the amendments require that the exchanges be able to demonstrate that they are using that data effectively in their compliance programs to reconstruct trading.

Question: How much of your 1986 budget request, if any, do you expect to be used for monitoring the implementation of the audit trail regulations?

Answer: At this time, the Commission cannot determine the extent to which its 1987 budget request will be used for monitoring the implementation of the audit trail regulations. The Commission will monitor implementation as part of its routine oversight of the exchanges. The amount of resources that will be necessary to accomplish this task will depend on a variety of currently indeterminable factors such as the complexity of the systems initially implemented by each exchange, the extent to which there are differences between the systems selected by the exchanges, and the degree to which each exchange is successful in satisfying the standards of the rule. Further, some of the time spent in this effort may be offset by increased efficiencies by exchange and Commission staff resulting from use of the improved audit trail data in trade and market surveillance.

FY 1987 OMB DIRECTED RESOURCE CUTS

Question: Your original request to OMB for 1987 was $34.2 million and 567 staff years. When it came back it was $30.4 million and 508 staff years. Could you tell us what those additional resources that you requested would have been used for?

Answer: The Commission would have applied nearly $2.3 million of the reduction to the salaries, benefits and support costs associated with the 59 staff years that OMB disallowed. Although most of the Commission's operating divisions would have some staff increase, most of the staff years would have been assigned to the critical areas of enforcement, market surveillance and exchange oversight. Another $800,000 would have been directed to the acquisition of communications and ADP equipment and contractor support services. The balance of the now reduced funding would have provided funds for leases of space, maintenance, transcripts, training and miscellaneous support.

Question: How do you plan to compensate for the lack of funds which you had estimated you would need?

Answer: As the Commission's principal reduction involves 59 staff years of lost staff support, the rate at which we pursue some portions of our workload will decline. Regulatory activity involving new contracts, new markets and new participants will have to be distributed across only a slightly augmented staff which may result in more elapsed time from the start to the completion of assignments. The loss of required ADP augmentation will compound that problem as some work that could have been automated will have to be done manually or not at all.

Question: Can you yield additional responsibilities to the National Futures Association?

Answer: The regulatory programs of the Commodity Futures Trading Commission attempt to use the self-regulatory organizations, including the exchanges and the National Futures Association, as the first line of defense in regulating the commodities industry. The NFA has assumed most of the financial auditing, sales practice auditing and registration functions formerly performed by CFTC. In Fiscal Year 1986, we anticipate transferring the floor broker registration function to NFA. At the request of the Commission, NFA conducted a preliminary study of account protection in 1986 to determine what other safeguards may be available, feasible or appropriate. Based on this preliminary study, NFA is determining further steps that might be taken. While we continue to try to identify additional functions which may be shifted to NFA, most remaining Commission activities under the Commodity Exchange Act such as enforcement and oversight are not susceptible to self-regulatory performance.

ENFORCEMENT PROGRAM

Question. There are some who have said that the Commission spends too much of its limited time and money on relatively insignificant matters, such as registration violations. How do you respond to that?

Answer: The Commission continually re-evaluated the deployment of its limited resources among a variety of areas including manipulation, fraud, speculative limit violations, off-exchange futures and registration. Since registration involves the identification and location of commodity professionals who handle customer funds and orders, it is a basic underpinning of the regulatory scheme established by the Commodity Exchange Act which cannot be ignored. Registration also brings commodity professionals into a self-regulatory scheme whereby daily sales practices and financial integrity are monitored to assure market integrity and public protection.

OFF-EXCHANGE FUND

Question: There has been significant progress, I am told, in the area of off-exchange fraud. The Commission's efforts have been boosted with help from state regulators and the National Futures Association. Is this helping to reduce your budget requirement?

Answer: The efforts of state regulators and the NFA have enhanced, overall, the anti-fraud coverage of commodity-related activities. They have, however, had little impact on the Commission's budget requirements in the area of off-exchange fraud. The Commission will continue to devote approximately 10% of its enforcement resources to combatting off-exchange fraud and will continue the work of its State/Federal Liaison Unit, created in the Division of Enforcement in response to the adoption of the open season provisions of the Act. The unit, in addition to bringing prosecutions against off-exchange fraud operators, provides an important educational and information sharing resource for the states.

There has been significant progress, for example, in Florida, formerly one of the centers of such illegal activity. The progress in Florida can be attributed to the efforts of the Commission and State of Florida, both through the Commission's actions and joint prosecutions, information sharing and educational efforts. The same is true to a lesser extent in Michigan and Arizona; however, few cases have been brought by other states.

In other areas of the country the efforts made by state regulators to combat off-exchange commodity fraud unfortunately have not resulted in the degree of success we had hoped with the adoption of the open season provisions of the Act during the 1982 reauthorization. The Commission continues to conduct seminars on how to combat commodity fraud, which are well attended and received by state officials.

The Commission has been working closely with the North American Association of Securities Administrators -- NAASA -- in developing a model code which NAASA, NFA and CFTC have been encouraging the states to adopt. So far the States of New Mexico, Washington, Maine and Missouri have enacted such a law. In addition, New York, Florida and Arizona have enacted legislation to deal with the sale of commodity instruments.

NFA has jurisdiction only over its members. As off-exchange fraud operators rarely are members of NFA, the most NFA has been able to do is notify the Commission of suspected fraudulent operators.

The Commission also has an advisory committee on CFTC/State Cooperation which examines issues of joint concern to the States and the Commission arising under the Commodity Exchange Act, particularly regarding the benefits of cooperative efforts in the protection of the public against abusive operators in the commodities field.

APPROPRIATION LEVELS OF SEC AND CFTC

Question: Often, there are comparisons made between the Securities and Exchange Commission and the CFTC. One comparison is the appropriation levels for the two. This year, the SEC had a $106 million appropriation, and the CFTC $27 million. How does your workload compare to the SEC's?

Answer: It is difficult to compare the SEC and the CFTC since the markets regulated and the regulatory approaches both differ. The securities markets provide a means of creating capital by transferring existing financial assets from one party to another. The futures markets are a mechanism for price discovery and for transferring the risk of price changes. The CFTC's regulatory focus is on prevention of fraud and manipulation through oversight of self-regulatory organizations, while the SEC's regulatory focus is on information disclosure.

Question: Is it fair to compare the two, or is it like comparing apples and oranges?

Answer: As a result of the differences discussed above, there may not exist an adequate means of comparison of the agencies' workloads and budgets.

LEVERAGE INDUSTRY

Question: How much would you estimate has been spent this year in regulating the leverage industry?

Answer: During Fiscal Year 1986, the Commission estimates it will spend five staff years regulating leverage.

Question: How would that change in 1987 if companies trading leverage contracts are required to trade on exchanges?

Answer: The Commission has stated that leverage and futures contracts are indistinguishable both economically and legally. One leverage firm has indicated that if leverage were to be required to trade on an exchange, the business would be eliminated. While the Commission does not know for a fact that this is indeed the case, if leverage trading were moved to exchanges, there would have to be some very fundamental changes made in the instrument and/or in the marketing methods. Leverage trading, as it is currently conducted, involves a company establishing bid and offer prices and marketing their contracts to the customer at those prices. There is no competitive price setting and the firm is always on one side of the transaction. Futures contracts, on the other hand, involve a transaction between two independent parties at a price arrived at competitively through bids and offers in a trading pit. The exchanges do serve as a self-regulatory organization for their members; therefore, the amount of CFTC resources needed to regulate an instrument on an exchange is generally lower than an off-exchange instrument. Hence, it is difficult to answer the question as to resources required for CFTC for this kind of fundamental change in leverage trading.

The reauthorization of CFTC currently underway has two very different approaches to regulating leverage contracts. The bill reported by the Senate Committee on Agriculture, Nutrition and Forestry has a two-year phasing out of the current regulatory scheme under the Commodity Exchange Act. During this two-year period, CFTC estimates that approximately the same level of resources expected to be expended in FY 1986 will be required for each of those two years. The bill of the House Committee on Agriculture proposes a survey, report to Congress and adoption of new regulations over the next two years to cover thereafter an expanded leverage industry in gold, silver and platinum over the next two years. The House bill also enables CFTC to define an expansive role for the National Futures Association or some other similar, self-regulatory body. Under the House bill, CFTC estimates that five additional staff years would be required in Fiscal Year 1988 to prepare the survey, report and regulatory framework for an expanded program. The proposed survey should provide a more accurate number of possible new entrants and will provide a basis for estimating CFTC resource requirements for regulating this expanded program in Fiscal Year 1989 and beyond.

COMPUTER SUPPORT

Question: There has been concern in the past relating to the computer system being utilized at the CFTC. Please discuss the adequacy of your present system and how it impacts on your ability to deal effectively with the organizations over which you have regulatory responsibilities.

Answer: The Commission's main computer was replaced in 1984 with a National Advanced Systems AS-5000 which has vastly improved our capability to meet the Commission's computing needs. The AS-5000 and an initial complement of peripheral components were obtained from the GSA Excess Equipment Inventory List at no cost -- other than freight -- to CFTC. Since its initial installation the number of tape and disk drives have been increased and the amount of memory on the central processing unit doubled to the maximum memory available on an AS-5000. In addition, in 1985, the Commission developed and adopted a Five Year Strategic Plan for ADP and Data Communications. The plan identified the long-range ADP requirements of the Commission, established a schedule for satisfying the requirements, and defined the personnel and equipment resources required to implement the plan. Since that time improvements have been made in application systems needed to accomplish the mission of the CFTC. Previous, laboriously slow, overnight batch systems for market surveillance have been redesigned as online applications which are readily available to the market analysts that review daily trading activity. Other new systems have been designed and programmed for market surveillance, enforcement, registration, and administration that were not available before.

In addition, microcomputer-based Information Centers have been established in Washington, Chicago, and New York, which have made computing capability readily available to end users. Training has been conducted in those offices and tutorial diskettes are available for any employee to use, so that most Commission employees have the capability to develop applications to streamline their own functions.

The improvements in the computer system have significantly increased the Commission's ability to deal effectively with the exchanges; futures commission merchants -- FCM's --; and through them, the traders themselves and those for whom they trade. The improved capabilities for receipt and correction of data make failures to report, erroneous reporting and other anomalies more obvious to surveillance staff and reduce staff time needed to code and proof system inputs, freeing the staff to spend more time on actual surveillance of markets. As an example, one new system makes it easy to see, online, what accounts are related to each other and who controls them, a capability useful in determining whether or not market manipulation is occurring.

The improvements have made possible the new rule requiring machine-readable data to be reported by the futures commission merchants for traders carrying the largest positions. This rule, to be implemented in August, 1986, allows FCMs to report by magnetic tape, data diskette, or to directly transmit data to CFTC's computer. This will improve the timeliness with which data becomes available to CFTC staff as well as eliminating errors introduced by data entry.

Not all the systems needed to be readily available online have been built or converted, however, and the capacity of the existing mainframe computer is being saturated. As the needed applications are developed, we will be unable to implement these new systems without a larger central processing unit -- CPU -- as shown in the capacity sizing study done in conjunction with the Five Year Strategic Plan for ADP and Data Communications. To accomplish the replacement of the CPU, we have determined requirements for the new computer, issued a request for proposal, received and evaluated competitive bids from prospective suppliers. The selection of the new central processing unit is imminent with installation to occur before the end of FY 1986.

FARMER PARTICIPATION IN FUTURES AND OPTIONS MARKETS

Question: How are you encouraging farmers to participate in futures trading, especially options, as a means of marketing their products?

Answer: Section 18 of the Commodity Exchange Act directs the Commission to assist in the development of educational and other informational materials regarding futures trading for dissemination and use among producers, market users and the general public. Due to budget constraints, the Commission's educational efforts over the past couple of years have been quite limited.

The Commission transmits information to the agricultural community through its publication, AgReport, with a combined subscription list of 800 individuals, universities, farm organizations, and state agencies. AgReport contains extensive articles on the use of agricultural options which have been reprinted and distributed separately. Approximately two and a half years ago, the Commission assisted the USDA Cooperative Extension Service in developing a futures and options training program for state extension specialists, Agricultural Commodity Options: A Teacher Guide.

The CFTC has also organized an Agricultural Advisory Committee which advises the Commission about a wide array of agricultural issues affecting producers and serves as a communications link with the agricultural community.

CFTC ADVISORY COMMITTEES

Question: Last year, two advisory committees were formed: the Agricultural Advisory Committee, representing various sectors of the agricultural community; and the Financial Products Advisory Committee, representing those who use financial futures and options in their business activities. Could you tell us how those committees have been helpful to you?

Answer: The advisory committees -- Agricultural and Financial -- have served the Commission in two ways. Each committee has provided the Commission with invaluable advice and insight from the agricultural and financial communities, respectively. Each committee helps the Commission reach members of each respective community through direct contact with committee representatives.

The 21-member Agricultural Advisory Committee has advised the Commission on a broad range of agricultural issues which affect agricultural producers, processors, lenders and others interested in or affected by the agricultural commodity markets. The committee has advised the Commission on a diverse range of issues including trade options, the agricultural options pilot program and the audit trail.

The Financial Products Advisory Committee has assisted the Commission in keeping abreast of new products and new participants in the burgeoning financial futures and options markets and has provided the Commission with practical advice and counsel on how to oversee effectively these new products. The Committee has focused on a wide range of issues in financial markets, among them, appropriate use of exchange traded instruments for hedging purposes and the growth and uses of off-exchange derivative products.

Question: What is the cost of operating these committees?

Answer: There is no separate budget for either of these advisory committees. Members of both the Financial Products and the Agricultural Advisory Committees attend committee meetings at their own expense with no reimbursement from CFTC for travel, lodging or per diem expenses. The few minor costs incurred in conducting official advisory committee business, such as transcript costs and travel costs incurred by Commission staff, are charged against the budgets of the appropriate offices within the Commission.

NEW EXCHANGES

Question: Last year, two new exchanges were opened. What kind of drain does that have on your resources?

Answer: During Fiscal Year 1985 two new exchanges, the Amex Commodities Corporation and the Philadelphia Board of Trade -- PHBT -- were designated by the Commission. In the course of designating these exchanges the Commission's Division of Trading and Markets spent 2200 Division staff-hours reviewing more than 942 rules. Since neither exchange has had any substantial trading volume in its contracts, to date oversight of activities on those exchanges has not required significant resources. In addition, the PHBT has submitted eight proposed new contracts since its initial designation, all of which have been handled by the

Commission's Division of Economic Analysis in the ordinary course of the contract designation process. In this connection, the Commission collects fees for processing contract market designation submissions and conducting oversight of exchanges; those fees are paid to the United States Treasury.

QUESTIONS SUBMITTED BY SENATOR SPECTER

ROLE OF FUTURES AND OPTIONS

Question: In what commodity areas that affect or assist Pennsylvania are you involved?

Answer: The mission of the Commodity Futures Trading Commission -- CFTC -- is to regulate and oversee the commodity futures and options industry in order to foster an openly competitive market environment that serves the economic functions of risk shifting and price discovery and to protect the public and markets from price manipulation and fraud.

Futures and options contracts are traded on over 100 different commodities. Some of these are on agricultural and energy commodities such as wheat, corn, lumber, soybeans, hogs, cattle, and oil while others are on financial instruments. These futures contracts provide Pennsylvania farmers, financial institutions and other Pennsylvania businesses with opportunities to better manage economic risk. A commodity exchange in Pennsylvania, the Philadelphia Board of Trade -- PHBT -- is regulated by the CFTC. The PHBT is designated to trade an over-the-counter Stock Index Future and a Eurodollar Option.

Futures and options trading affect a broad segment of the economy. Through effective regulation of this economic activity, the futures and options markets serve as price barometers to aid producers in deciding which crops grow, middlemen in deciding when to contract for their purchases or sales of the actual commodity, and consumers in getting lower prices because people and firms in the marketing chain can hedge their price risks. This benefits not only the State of Pennsylvania and its residents, but the economy of the entire country.

Another general benefit provided by CFTC to users of the futures markets is to ensure that persons using the markets have their orders executed fairly and their financial deposits protected. With close CFTC oversight, the commodity exchanges and the National Futures Association regulate futures commission merchants, commodity pool operators and commodity trading advisors. The Commission's enforcement arm is ready to take action against lawbreakers and to protect customer funds. The Commission also works with State enforcement officials to combat fraud, particularly in off-exchange instruments.

UTILIZATION OF BUDGET INCREASES

Question: Will your request for an increase in appropriations of $2.4 million help in your work with these areas?

Answer: The CFTC's $2.4 million budget increase includes a request for 15 additional staff years as well as funds to provide for increases in operating expenses necessary to support CFTC's operations. These additional staff years would be directed to critical areas in enforcement, market surveillance, and oversight of self-regulatory organizations. These three areas are among the most critical to ensuring that the prices registered by futures and options contracts accurately reflect the forces of supply and demand for the underlying commodity, that users of the market are able to obtain fair and competitive executions of their trades, and that customer funds are adequately protected.

REAUTHORIZATION OF CFTC

Question: As you go through the reauthorization process, what specific responsibilities do you anticipate assuming or losing?

Answer: Legislation as reported from the Senate Committee on Agriculture, Nutrition and Forestry -- S. 2045 -- and the bill -- H.R. 4613 -- marked up by the House Committee on Agriculture, May 7, 1986, generally make minor changes in the Commodity Exchange Act and the Commission's responsibilities.

The major question of changed responsibility involves leverage, an issue which has yet to be resolved by the Congress, since both Committees dealt differently with it. Under the Senate bill, the Commission, after two years of enactment of reauthorization legislation, would no longer regulate leverage contracts. Under the House version of the legislation, leverage contracts would be permitted in gold, silver and platinum, with an expanded number of firms in the business contemplated after two years. The expanded industry would be regulated in the first instance by a registered futures association with Commission oversight responsibility.

The House version of the legislation also specifically directs the Commission to end the pilot status of the commodity options program. This could result in an increased number of options designation applications, with concomitant increased surveillance and other responsibilities for the Commission.

Other provisions of both bills would have a minimal effect on the Commission's current regulatory responsibilities.

FOOD AND DRUG ADMINISTRATION

STATEMENT OF FRANK E. YOUNG, M.D., PH.D., COMMISSIONER

ACCOMPANIED BY:

JOHN A. NORRIS, DEPUTY COMMISSIONER
THOMAS SCARLETT, CHIEF COUNSEL
GERALD F. MEYER, ASSOCIATE COMMISSIONER FOR MANAGEMENT AND OPERATIONS
FRANK P. CLAUNTS, DIRECTOR, DIVISION OF FINANCIAL MANAGEMENT

INTRODUCTION OF WITNESS

Senator COCHRAN. We will now hear from the Food and Drug Administration. Dr. Frank Young is Commissioner of the Food and Drug Administration. We want to welcome the Commissioner and his colleagues to the hearing. The Food and Drug Administration is responsible for consumer protection generally. Its mission is to protect the public health of the Nation against hazardous foods, drugs, biological products, cosmetics, medical devices and radiological products.

PREPARED STATEMENT

We have the statement which you have prepared, Dr. Young, for the committee, and it will be included at this point in the record in its entirety.

We would encourage you to make summary comments, to give us the benefit of the highlights of your statement so we may have an opportunity to ask you questions. You may proceed.

[The statement follows:]

Statement of Frank E. Young

MR. CHAIRMAN, I AM PLEASED TO HAVE THE OPPORTUNITY TO APPEAR BEFORE YOUR SUBCOMMITTEE TODAY TO SUPPORT THE FOOD AND DRUG ADMINISTRATION'S BUDGET REQUEST FOR 1987. I WOULD FIRST LIKE TO INTRODUCE MY COLLEAGUES AT THE TABLE WITH ME.... A FEW OTHER MEMBERS OF MY STAFF ARE ALSO PRESENT TO RESPOND, IF NECESSARY, TO SPECIFIC QUESTIONS AND INTERESTS OF THE COMMITTEE.

THE PRIMARY ROLE OF THE FOOD AND DRUG ADMINISTRATION IS THE PROTECTION OF THE PUBLIC HEALTH. WE ARE RESPONSIBLE FOR ASSURING THE SAFETY, AND IN SOME CASES EFFECTIVENESS, OF PRODUCTS THAT REPRESENT ABOUT A QUARTER OF EVERY DOLLAR THE AMERICAN CONSUMER SPENDS. OUR CITIZENS HAVE A RIGHT TO EXPECT THAT THESE PRODUCTS ARE SAFE WHEN USED AS INTENDED, AND IN THE CASE OF THERAPEUTIC PRODUCTS, THAT THEY ALSO ARE EFFECTIVE.

BEFORE DISCUSSING RESOURCES, I WOULD LIKE TO TALK BRIEFLY ABOUT SOME OF THE WAYS IN WHICH WE FULFILL OUR RESPONSIBILITIES, AND RELATE THAT DISCUSSION TO RECENT EVENTS AND ACCOMPLISHMENTS. IN THIS DISCUSSION I WILL ALSO MENTION OUR ACTION PLAN, WHICH WE ARE AGGRESSIVELY IMPLEMENTING BOTH TO IMPROVE CURRENT PROGRAMS AND OPERATIONS AND TO PAVE THE WAY FOR FUTURE ACTIVITIES. I AM PLEASED THAT, AS OF TODAY, WE HAVE BEGUN WORK ON 80% OF OUR 256 PLANNED MILESTONES, AND HAVE COMPLETED HALF OF THEM. IT IS OUR COMMITMENT TO COMPLETE TWO-THIRDS OF THE MILESTONES BY THE END OF JULY OF THIS YEAR.

WITH YOUR PERMISSION, I WILL DISCUSS OUR ACTIVITIES UNDER THE FOLLOWING HEADINGS:

- PREMARKET REVIEW AND APPROVAL
- RISK ASSESSMENT AND MANAGEMENT
- REGULATIONS
- RESOURCES

PREMARKET REVIEW AND APPROVAL

ONE WAY WE ASSURE THE SAFETY AND EFFECTIVENESS OF THE PRODUCTS WE REGULATE IS TO ASSURE THAT THEY ARE NOT MARKETED IN THIS COUNTRY UNTIL SATISFACTORY EVIDENCE OF THEIR SAFETY HAS BEEN PRESENTED. FOR DRUGS, BIOLOGICS, AND MEDICAL DEVICES, EVIDENCE OF THEIR EFFECTIVENESS MUST ALSO BE PROVEN. THIS RESPONSIBILITY WEIGHS UPON US IN TWO WAYS: NOT ONLY MUST WE KEEP PRODUCTS FROM THE MARKETPLACE THAT ARE UNSAFE OR INEFFECTIVE, BUT WE ALSO MUST ENSURE THAT PEOPLE HAVE TIMELY ACCESS TO PRODUCTS THAT IMPROVE THE DIAGNOSIS, PREVENTION, OR TREATMENT OF DISEASE. AT THE SAME TIME, WE MUST STRIVE TO EXPEDITE THE ECONOMIC SAVINGS TO INDIVIDUALS AND TO THE NATION THAT CAN RESULT FROM IMPROVED PRODUCTS.

HUMAN DRUG REVIEW

THE FIRST GOAL OF THE ACTION PLAN IS TO IMPROVE AND TO ACCELERATE THE NEW DRUG APPROVAL PROCESS WHILE IMPROVING THE QUALITY OF OUR REVIEW. REVISIONS IN THE REGULATIONS FOR NEW DRUG APPLICATIONS (NDAS), AS WELL AS OTHER MANAGEMENT INITIATIVES WE'VE UNDERTAKEN, ARE EXPECTED TO RESULT IN SIGNIFICANT REDUCTIONS IN REVIEW TIME, WHICH HAS BEEN

AVERAGING ABOUT 24 MONTHS FOR ALL NDAs. WE ARE ENCOURAGED BY THE FACT THAT 30 NEW CHEMICAL-ENTITY DRUGS WERE APPROVED IN 1985, A RECORD. FURTHERMORE, OF THESE 30 NEW CHEMICAL ENTITIES JUST APPROVED, 18 REPRESENT THERAPEUTIC ADVANCES OVER EXISTING DRUGS, ANOTHER RECORD. THESE THERAPEUTIC ADVANCES WILL BRING RELIEF TO MILLIONS OF AMERICANS. HOWEVER, FURTHER EFFORTS ARE ESSENTIAL IF WE ARE TO CONTINUE TO REDUCE THE REVIEW TIME FOR ALL DRUGS. THEREFORE, IN 1987, WE WILL RE-ALLOCATE RESOURCES WITHIN THE AGENCY TO THE NEW DRUG EVALUATION PROCESS, AND WE ARE ALSO REQUESTING A FUNDING INCREASE OF $14 MILLION FOR THIS PROGRAM. THESE COMBINED RESOURCES WILL BE USED TO EXPAND MEDICAL AND SCIENTIFIC REVIEW STAFFS, TO IMPROVE MANAGEMENT SYSTEMS, AND TO INCREASE THE OVERALL CAPACITY TO UTILIZE OUTSIDE SUPPORT FOR THESE PROCESSES.

IN ADDITION TO THEIR ALL-IMPORTANT PUBLIC HEALTH ADVANTAGES, THE ECONOMIC IMPLICATIONS OF OUR DRUG REVIEWS ARE SUBSTANTIAL. SALES OF THE 200 MOST WIDELY PRESCRIBED DRUGS AVERAGE $1 MILLION A WEEK. WE ESTIMATE THAT THE DRUG INDUSTRY AS A WHOLE AVERAGES $25 BILLION IN ANNUAL SALES, EMPLOYING 145,000 PEOPLE. IF FDA CAN MAINTAIN THE CRITICAL QUALITY OF ITS REVIEWS WHILE REDUCING THE TIME IT TAKES TO BRING NEW PRODUCTS TO THE MARKET, WE WILL FOSTER INNOVATION AND THE ECONOMIC BENEFITS WILL BE GREAT. AN EFFICIENT FDA PROVIDES A CLEAR "VALUE ADDED" TO THE AMERICAN ECONOMY AS WELL AS TO OUR FIRST RESPONSIBILITY, PUBLIC HEALTH. FOR EXAMPLE, THE NUMBER OF INVESTIGATIONAL APPLICATIONS (INDs) HAS NEARLY DOUBLED SINCE 1980, REPRESENTING INCREASED INVESTMENT IN NEW PRODUCTS THAT WILL RESULT IN FULL MARKETING APPLICATIONS (NDAs) FOR MANY NEW THERAPIES. GIVEN THE

NDA/IND REWRITES AND OTHER ACTION PLAN OBJECTIVES, AND THE RESOURCES REQUESTED FOR US IN THE PRESIDENT'S 1987 BUDGET, I BELIEVE WE CAN AVOID POTENTIAL EROSION OF REVIEW TIMES FROM INCREASING WORKLOADS, AND CAN CUT THE AVERAGE NDA APPROVAL TIME DOWN FROM THE CURRENT 24 MONTHS TO 18 MONTHS.

ORPHAN PRODUCTS

ORPHAN PRODUCTS REPRESENT ANOTHER ASPECT OF DRUG DEVELOPMENT, AN AREA THAT REMAINS ONE OF THE AGENCY'S HIGHEST PRIORITIES. I AM HAPPY TO REPORT THAT OUR EFFORTS IN THIS AREA HAVE BEEN FRUITFUL, THANKS IN A LARGE PART TO THE CONCERN AND SUPPORT OF THIS SUBCOMMITTEE. FIRST OF ALL, WE APPROVED TEN NEW DRUG APPLICATIONS FOR ORPHAN PRODUCTS IN CALENDAR YEAR 1985. SECOND, WE OBTAINED COMMITMENTS BY SPONSORS TO DEVELOP THREE NEW ORPHAN PRODUCTS. THIRD, UNDER THE PROVISIONS OF THE LAW, WE GAVE OFFICIAL "ORPHAN" DESIGNATION TO 44 PRODUCTS. THIS DESIGNATION ENTITLES THE SPONSOR TO TAX CREDITS FOR CLINICAL RESEARCH EXPENSES AS WELL AS ELIGIBILITY FOR EXCLUSIVE MARKETING APPROVAL STATUS.

IN 1985, WE AWARDED SLIGHTLY LESS THAN $2.5 MILLION IN BOTH NEW GRANTS AND CONTINUATIONS OF PRIOR PROJECTS FOR STUDIES OF ORPHAN PRODUCTS. THIS INCLUDES A ONE-TIME TRANSFER OF $1 MILLION AWARDED UNDER AN INTERAGENCY AGREEMENT WITH THE NATIONAL INSTITUTE FOR CHILD HEALTH AND HUMAN DEVELOPMENT, AND PERMITTED THE AWARD OF 21 ORPHAN PRODUCT RESEARCH GRANTS. THIS IS THE LARGEST NUMBER OF GRANTS AWARDED SINCE THE INITIATION OF THE PROGRAM IN 1983. I WOULD NOTE THAT, IN ADDITION TO DRUGS, TWO OF OUR GRANTS WERE MADE FOR STUDIES THAT PROMISE TO BRING USEFUL ORPHAN MEDICAL

DEVICES TO THE MARKET. WE INTEND TO AWARD $2.8 MILLION OF FDA'S FUNDS FOR SUCH GRANTS IN 1986, AND $3 MILLION IN 1987, WHICH WILL EVEN FURTHER EXPAND THIS IMPORTANT EFFORT.

LET ME DESCRIBE ONE EXAMPLE OF ORPHAN PRODUCT DEVELOPMENT: LAST YEAR WE APPROVED A HUMAN GROWTH HORMONE PRODUCED BY MEANS OF RECOMBINANT DNA TECHNOLOGY, WHICH PROTECTED THE HORMONE FROM VIRAL CONTAMINATION ASSOCIATED WITH THE USE OF PITUITARY EXTRACTS FROM HUMAN CADAVERS, PREVIOUSLY THE ONLY MEANS OF THE HORMONE'S PRODUCTION.

POSTMARKETING SURVEILLANCE

FDA'S RESPONSIBILITIES DO NOT END WHEN A NEW PRODUCT IS MARKETED. THE AGENCY IS CHARGED WITH ASSURING THAT THE PRODUCT WILL BE SAFE IN ACTUAL USE. THEREFORE, WE MUST ALSO HAVE EFFECTIVE SYSTEMS FOR POSTMARKETING SURVEILLANCE, TO BE SURE THAT ANY PROBLEMS WITH A PRODUCT ON THE MARKET ARE DETECTED, ANALYZED, AND CORRECTED OR REMOVED AS QUICKLY AS POSSIBLE.

HUMAN DRUGS UNDERGO EXTENSIVE AND COSTLY TESTING AND REVIEW PRIOR TO APPROVAL. THUS, WHEN A DRUG IS MARKETED THERE IS CONSIDERABLE EVIDENCE THAT IT WILL BE USEFUL WHILE NOT POSING UNACCEPTABLE RISK.

HOWEVER, IT MUST BE RECOGNIZED THAT PREMARKET TESTING CANNOT PROVIDE COMPLETE ASSURANCE OR INFORMATION. CLINICAL TRIALS GENERALLY INVOLVE FEWER THAN 2000 PATIENTS AND SELDOM LAST MORE THAN 3 YEARS. THUS, THEY LACK THE ABILITY TO DETECT NOT ONLY SEVERE SIDE EFFECTS WHICH MIGHT OCCUR IN A

VERY FEW PEOPLE, BUT ALSO COMMON BUT DELAYED EFFECTS, BOTH SEVERE AND NON-SEVERE, OF CHRONIC ADMINISTRATION. FDA HAS LONG HAD SYSTEMS FOR REPORTING ADVERSE EXPERIENCES WITH DRUGS AND DEVICES, BUT WE HAVE A MAJOR GOAL IN THE ACTION PLAN TO BROADEN AND TO IMPROVE THESE EFFORTS. WE HAVE ALREADY TAKEN A NUMBER OF STEPS TO PROMOTE FASTER, MORE COMPLETE REPORTING DIRECTLY FROM HEALTH PROFESSIONALS, AND WE HAVE NOW AUTOMATED OUR INFORMATION SYSTEMS SO THAT THE INFORMATION CAN BE PROCESSED AND SCREENED PROMPTLY. FORTUNATELY, MOST OF THE SIDE EFFECTS REPORTED ARE THOSE THAT ARE ALREADY KNOWN TO OCCUR, BUT WHEN THERE ARE NEW PROBLEMS I CAN ASSURE YOU THAT FDA HAS THE MEANS IN PLACE TO IDENTIFY THEM AND TO DEVELOP APPROPRIATE ACTION AS QUICKLY AS POSSIBLE.

MEDICAL DEVICE REVIEW

THE SECOND GOAL OF THE ACTION PLAN IS TO CREATE NEEDED IMPROVEMENTS TO THE MEDICAL DEVICE PREMARKET APPROVAL PROCESS. TOWARD THIS END, WE HAVE INITIATED IMPROVEMENTS THAT ARE ALREADY PAYING DIVIDENDS, IN SPITE OF WORKLOADS THAT HAVE RISEN DRAMATICALLY OVER THE LAST SEVERAL YEARS. MEDICAL DEVICE APPLICATIONS AND SUPPLEMENTS HAVE INCREASED BY 22% SINCE 1980, AND THE INVESTIGATIONAL DEVICE EXEMPTION WORKLOAD IS UP BY 150%. WE HAVE REDIRECTED OUR RESOURCES IN THIS AREA AND HAVE BEEN ABLE TO LAUNCH NEW INITIATIVES IN SUCH AREAS AS MICRO-ELECTRONICS AND MATERIALS SCIENCE. ONE MEASURE OF THE PROGRESS WE ARE MAKING IN THE MEDICAL DEVICE AREA IS THE REVERSAL OF A TREND OF DECLINING PREMARKET APPROVAL APPLICATION (PMA) APPROVALS. DURING THE FIRST FIVE MONTHS OF FY86, FDA APPROVED 30 NEW DEVICES, COMPARED WITH 37 APPROVALS FOR ALL OF FY85.

ANIMAL DRUG REVIEW

IN ADDITION TO OUR CRITICAL RESPONSIBILITIES IN REVIEWING NEW DRUGS AND DEVICES FOR MEDICAL TREATMENT, ANOTHER ACTIVITY THAT HAS TREMENDOUS IMPACT BOTH ON CONSUMERS AND ON THE AGRICULTURAL INDUSTRY IS OUR REVIEW AND SURVEILLANCE OF ANIMAL DRUGS AND FEEDS. THESE ACTIVITIES ARE IMPORTANT TO THE PUBLIC NOT ONLY BECAUSE THEY MINIMIZE HEALTH HAZARDS THAT THE CONSUMER CANNOT ASSESS, BUT ALSO BECAUSE THEY ENCOURAGE PROPER NUTRITION BY ASSURING A SAFE AND WHOLESOME NATIONAL MEAT, MILK, AND EGG SUPPLY. FDA'S EFFORTS ARE ALSO IMPORTANT BECAUSE OF THIS NATION'S ROLE AS A WORLD LEADER IN THE USE OF ANIMAL DRUGS IN THE PRODUCTION OF LIVESTOCK, POULTRY, AND OTHER FOOD ANIMALS.

AS PART OF OUR CONTINUING EFFORTS TO ASSURE THE SAFETY OF ANIMAL DRUGS, FEEDS, AND FOOD PRODUCTS, WE HAVE IMPROVED GUIDELINES AND STREAMLINED PROCEDURES FOR THE REVIEW OF DRUGS FOR MINOR SPECIES AND FOR MINOR USES IN THE MAJOR LIVESTOCK SPECIES. ALSO, WE ARE CONTINUING OUR PROGRAM OF FUNDING RESEARCH TO GENERATE DEVELOPMENT OF NEW PRODUCTS FOR THESE USES. WE BELIEVE THAT THIS PROGRAM, ALTHOUGH NOT A MAJOR PORTION OF OUR BUDGET, IS IMPORTANT BECAUSE THERE MAY BE LITTLE ECONOMIC INCENTIVE TO DEVELOP SUCH DRUGS EVEN THOUGH THE PRODUCTION OF MINOR SPECIES OF FOOD-PRODUCING LIVESTOCK, BIRDS, AND FISH REPRESENTS A VERY SUBSTANTIAL INDUSTRY AND A SIGNIFICANT CONTRIBUTION TO THE FOOD SUPPLY.

ANDA WORKLOAD

ANOTHER CHALLENGE WE'VE MET WITH SOME SUCCESS RECENTLY IS THE INCREASED WORKLOAD RESULTING FROM THE DRUG PRICE COMPETITION AND PATENT TERM RESTORATION ACT. THIS NEW LEGISLATION EXTENDED THE USE OF ABBREVIATED NEW DRUG APPLICATIONS OR ANDAS. PREVIOUSLY, ANDAS WERE ALLOWED ONLY FOR THOSE DRUGS APPROVED FOR SAFETY BETWEEN 1936 AND 1962, BUT NOW A MANUFACTURER OF A GENERIC COPY OF A DRUG APPROVED AFTER 1962 MAY USE AN ANDA INSTEAD OF AN NDA. AN ESTIMATED 150 DRUG PRODUCTS APPROVED AFTER 1962 ARE CURRENTLY OFF PATENT AND ARE NOW AVAILABLE FOR GENERIC COPY USING THE ANDA PROCEDURE. SINCE THE LEGISLATION WAS PASSED, THE NUMBER OF ANDAS SUBMITTED TO FDA HAS MORE THAN DOUBLED. MANY DRUGS ARE STILL UNDER PATENT PROTECTION, BUT 9 OF THE 10 TOP SELLING DRUGS ARE NOW AVAILABLE TO THE CONSUMER IN GENERIC VERSIONS. WE TOOK IMMEDIATE ACTION TO HIRE THE NECESSARY STAFF AND TO PROVIDE OTHER SUPPORT FOR THIS EXPANDED WORKLOAD--AND, AS A RESULT, BY THE END OF 1985 WE HAD REACHED VIRTUAL COMPLIANCE WITH THE LEGISLATED DEADLINE OF 180 DAYS TO REVIEW THESE APPLICATIONS. IN FACT, BY THE END OF DECEMBER, WE WERE COMPLETING OVER 95% OF THESE REVIEWS WITHIN 140 DAYS--40 DAYS LESS THAN THE STATUTORY DEADLINE.

AIDS ACTIVITIES

THERE IS ONE OTHER ASPECT OF HUMAN DRUG DEVELOPMENT THAT I WOULD LIKE TO TALK ABOUT, AND THAT IS DRUGS TO PREVENT OR CURE AIDS. IN 1985, FDA APPROVED THE VERY FIRST HTLV-III ANTIBODY TEST KIT, WHICH PERMITS THE SCREENING OF BLOOD AND PLASMA USED IN TRANSFUSIONS. INCREASED ACTIVITIES BY

INDUSTRY AND GOVERNMENT TO DEVELOP NEW PRODUCTS TO DEAL WITH THE AIDS VIRUS WILL SIGNIFICANTLY INCREASE THE NUMBER OF PRODUCT APPLICATIONS SUBMITTED FOR OUR APPROVAL. FOR EXAMPLE, NIH IS ESTABLISHING NEW TREATMENT EVALUATION UNITS IN 1986 THAT WILL RESULT IN A CORRESPONDING INCREASE IN INVESTIGATIONAL DRUG REQUESTS IN FDA. THESE APPLICATIONS DEMAND FREQUENT INTERACTION BETWEEN THE SPONSOR AND FDA REVIEWERS. IN FACT, OUR CONTACT WITH THE SPONSOR BEGINS WELL BEFORE AN INVESTIGATIONAL NEW DRUG (IND) APPLICATION IS EVEN SUBMITTED AND OCCURS ALMOST DAILY IN THE EARLY PHASES OF THE IND TRIALS. ONCE THE CLINICAL TRIALS ARE COMPLETED, WE MUST ACT WITH GREAT SPEED ON THE NEW PRODUCT APPLICATIONS THAT GENERALLY ARE SUBMITTED. FDA WILL CONTINUE TO MEET THIS CHALLENGE. WE HAVE WORKED CLOSELY WITH DRUG SPONSORS AND HAVE APPROVED SOME NEW INDS FOR AIDS TREATMENT IN AS LITTLE AS 5 DAYS. THE SAME SENSE OF URGENCY APPLIED TO THE HTLV-III ANTIBODY TEST KIT. WE HELPED FIVE PRIVATE FIRMS APPLY A TECHNOLOGY DEVELOPED AT NIH TO DEVELOP A TEST THAT DETECTS HTLV-III ANTIBODIES IN THE BLOOD SUPPLY. THUS, WE WERE ABLE TO APPROVE THE FIRST TEST KIT WITHIN TEN WEEKS OF RECEIVING THE APPLICATION. WE HAVE MET WITH EVERY MANUFACTURER WHO HAS EXPRESSED INTEREST IN DEVELOPING ANTI-AIDS PRODUCTS TO ENCOURAGE THEM AND TO GUIDE THEM THROUGH THE DRUG DEVELOPMENT PROCESS AS FAST AS POSSIBLE. RECENTLY WE HAVE APPROVED STILL ANOTHER TEST, BUT IN THIS CASE USING THE LAV (LYMPHADNOPATHY ASSOCIATED VIRUS) ISOLATED BY THE FRENCH INVESTIGATORS AND GROWN IN A DIFFERENT CELL LINE. OUR 1987 REQUEST INCLUDES ABOUT $10 MILLION FOR AIDS WORK, ROUGHLY THE SAME AS THE 1986 FUNDING LEVEL.

RISK ASSESSMENT AND MANAGEMENT

ANOTHER CORNERSTONE OF FDA'S ROLE IN PROTECTING THE PUBLIC HEALTH IS OUR RESPONSIBILITY FOR THE ASSESSMENT OF RISK THAT MAY BE POSED BY PRODUCTS WE REGULATE, AND THE ASSOCIATED MANAGEMENT OF THAT RISK. THIS IS A SUBJECT THAT HAS BEEN OF CONCERN TO THIS COMMITTEE FOR YEARS. FOR A LONG TIME WE HAVE TRIED TO COME TO TERMS WITH THE DELANEY CLAUSE, ENACTED IN 1958, WHICH PROHIBITS ANY CANCER-CAUSING INGREDIENT FROM BEING ADDED TO FOOD. THE SCIENCE OF 1986 CAN DETECT PARTICLES AT MINUTE LEVELS (PARTS PER TRILLION) NEVER ENVISIONED BY SCIENTISTS IN 1958 (TEN TO ONE HUNDRED PARTS PER MILLION). MOREOVER, AS TESTING CAPABILITIES HAVE EXPANDED, MORE SUBSTANCES THAN WOULD HAVE BEEN ANTICIPATED IN 1958 HAVE BEEN FOUND TO CAUSE CANCER IN ANIMALS. THESE DEVELOPMENTS HAVE PRESENTED AN INCREASINGLY DIFFICULT CHALLENGE TO FDA. CERTAINLY REASONABLE PEOPLE WILL AGREE THAT THERE HAS TO BE SOME MINUTE LEVEL AT WHICH AN INGREDIENT POSES AN INSIGNIFICANT RISK. YET THE DELANEY CLAUSE SEEMED TO PROHIBIT US FROM ALLOWING EVEN MINISCULE AMOUNTS OF CARCINOGENS IN ANY FOOD PRODUCTS, REGARDLESS OF HOW INSIGNIFICANT THE RISK OR HOW COSTLY THE SOLUTION.

I AM PLEASED TO REPORT TO YOU TODAY THAT OVER THE PAST FEW YEARS--AND ESPECIALLY LAST YEAR--WE HAVE MADE REAL AND SUBSTANTIAL PROGRESS IN FINDING A WAY TO APPLY SCIENTIFIC AND REGULATORY JUDGMENT TO THE ENFORCEMENT OF THE DELANEY CLAUSE. THIS PROCESS HAS ITS ROOTS IN THE LEGAL CONCEPT KNOWN AS DE MINIMIS AND IN THE SCIENTIFIC CONCEPT KNOWN AS RISK ASSESSMENT. THE RISK ASSESSMENT CONCEPT ALLOWS FDA TO QUANTIFY THE POTENTIAL RISKS ASSOCIATED WITH THE USE OF A

PRODUCT IN THE WORST CASE. THE DE MINIMIS CONCEPT ALLOWS FDA TO REFRAIN FROM TAKING ACTION WHEN, BASED ON A RISK ASSESSMENT, A CARCINOGENIC SUBSTANCE PRESENTS ESSENTIALLY NO RISK. RISK ASSESSMENT HAS PREVIOUSLY BEEN USED IN CONNECTION WITH OTHER APPROACHES TO DEALING WITH EXTREMELY LOW CARCINOGENIC RISK. THOSE APPROACHES--THE IMPURITIES POLICY AND THE RECENTLY PUBLISHED SENSITIVITY OF THE METHOD TECHNIQUE--ENABLE US TO USE SCIENTIFIC AND REGULATORY JUDGMENT IN EVALUATING THE RISK POSED BY SMALL AMOUNTS OF CARCINOGENS PRESENT AS CONTAMINANTS IN FOOD ADDITIVES OR AS RESIDUES IN ANIMAL FOOD PRODUCTS. COMMON SENSE TELLS ME THAT WHICHEVER APPROACH IS CHOSEN, THE RESULT OF A CORRECTLY PERFORMED RISK ASSESSMENT AND THE ASSOCIATED REGULATORY JUDGMENT SHOULD BE AN ADDITIVE WHICH IS CLEARLY SAFE FOR ITS INTENDED USE AND ONE WHICH PRESENTS A VANISHINGLY SMALL OR NON-EXISTENT RISK TO CONSUMERS.

THESE APPROACHES HAVE RECENTLY BEEN USED IN CONSIDERING A NUMBER OF FOOD ADDITIVES FOR WHICH VERY LOW RISKS WERE CALCULATED, INCLUDING SEVERAL COLOR ADDITIVES, METHYLENE CHLORIDE AS A RESIDUE IN DECAFFEINATED COFFEE, AND VINYL CHLORIDE IN PACKAGING MATERIAL. RISK ASSESSMENT, OF COURSE, CAN BE USED TWO WAYS. THE METHYLENE CHLORIDE THAT POSES INSIGNIFICANT RISK IN DECAFFEINATED COFFEE BECAUSE OF ITS MINUTE LEVELS HAS BEEN BANNED FROM USE IN HAIR CARE PRODUCTS AT MUCH HIGHER LEVELS.

A KEY TO OUR PROGRESS IN APPLYING RISK ASSESSMENT IS OUR STRONG SCIENTIFIC AND RESEARCH CAPABILITY, BOTH AT OUR CENTER FOR FOOD SAFETY AND APPLIED NUTRITION AND AT OUR NATIONAL CENTER FOR TOXICOLOGICAL RESEARCH IN ARKANSAS. BECAUSE WE

HAVE ALREADY ACHIEVED SUCCESS IN DEVELOPING ANALYTICAL METHODS CAPABLE OF DETECTING MINISCULE LEVELS OF CONTAMINANTS, OUR SCIENTIFIC RESOURCES ARE NOW BEING REDIRECTED TO DEVELOPING IMPROVED, IMPACT-ORIENTED METHODS FOR ASSESSING THE RISKS THAT MAY BE POSED BY PRODUCTS THAT MAY CONTAMINATE THE FOOD SUPPLY. THIS SCIENTIFIC AND RESEARCH CAPABILITY BECOMES INCREASINGLY MORE ESSENTIAL AS WE BEGIN MORE AND MORE TO APPLY SCIENTIFIC AND REGULATORY JUDGMENT REGARDING PERMISSIBLE LEVELS OF INADVERTENT OR UNINTENTIONAL CONTAMINANTS. FOR EXAMPLE, AT THE PRESENT TIME, THE UNCERTAINTIES ASSOCIATED WITH OUR METHODS TO MEASURE RISK REQUIRES THAT THE JUDGMENT WE DO EXERCISE MUST BE BASED ON EXTREMELY CONSERVATIVE ASSUMPTIONS. AS OUR SCIENTIFIC KNOWLEDGE INCREASES AND WE ELIMINATE THESE UNCERTAINTIES, WE BELIEVE THESE ASSUMPTIONS CAN BECOME LESS CONSERVATIVE, AND OUR POLICIES ON LEVELS OF UNINTENTIONAL OR INADVERTENT CONTAMINANTS CAN BE MORE CLEARLY ESTABLISHED THROUGH SCIENTIFIC PRINCIPLES. OF COURSE, THE SUCCESS OF THIS EFFORT DEPENDS ON RESEARCH EFFORTS NOW UNDERWAY WHICH WILL EXTEND FOR SOME TIME INTO THE FUTURE.

FACILITIES

WITH REGARD TO OUR EFFORTS TO IMPROVE OUR RISK ASSESSMENT CAPABILITIES, IT IS APPROPRIATE THAT I ALSO REPORT ON THE PROGRESS OF OUR NEW HEADQUARTERS LABORATORIES IN BELTSVILLE, MD. THANKS TO CONTINUED SUPPORT FROM THIS SUBCOMMITTEE, MODULE I OF THE NEW FACILITIES IS NEARLY READY TO RECEIVE THE ANIMAL TESTING AND RELATED LABORATORY FACILITIES PRESENTLY HOUSED AT FEDERAL BUILDING 8 HERE IN

WASHINGTON. THIS RELOCATION SHOULD BEGIN WITHIN THE NEXT FEW MONTHS.

MR. CHAIRMAN, I CANNOT EMPHASIZE TOO STRONGLY MY BELIEF THAT A STRONG SCIENCE BASE IS ESSENTIAL TO THE AGENCY'S ABILITIES TO ENSURE CONSUMER PROTECTION AND TO PROMOTE INNOVATION. OUR ABILITY TO ASSESS RISKS ACCURATELY DEPENDS ON CONTINUED IMPROVEMENT IN OUR ABILITY TO EXTRAPOLATE THE RESULTS OF ANIMAL TESTS TO POSSIBLE EFFECTS ON HUMANS. OUR CAPABILITY TO KEEP ABREAST OF EMERGING TECHNOLOGIES, THEREBY KEEPING US IN THE MAINSTREAM OF PRODUCT DEVELOPMENT, DEPENDS GREATLY ON OUR ABILITY TO PROVIDE THE AGENCY'S SCIENTISTS WITH AN ENVIRONMENT COMMENSURATE WITH THEIR SKILLS. THIS NEW LABORATORY FACILITY WILL GO A LONG WAY TOWARD IMPROVING THE AGENCY'S SCIENCE ENVIRONMENT.

WE ARE ALSO NEARING COMPLETION OF ANOTHER IMPORTANT ADDITION TO OUR OVERALL LABORATORY CAPABILITY, NAMELY THE EXPANSION OF OUR TOXICOLOGY LABORATORIES AT THE NCTR, WHICH WAS FUNDED IN 1984. WHILE OUR FACILITY AT BELTSVILLE WILL BE PRIMARILY DEVOTED TO FOOD RESEARCH ACTIVITIES, OUR WORK AT NCTR COMPRISES NOT ONLY BASIC INVESTIGATIONS OF THE MECHANISMS OF TOXICITY, BUT ALSO STUDIES DIRECTED AT MORE IMMEDIATE PROBLEMS NOT JUST WITH FOODS BUT ALSO WITH DRUGS AND WITH MEDICAL DEVICES AS WELL.

EMERGENCY ACTIONS

ANOTHER WAY FDA PROTECTS THE PUBLIC HEALTH IS BY RESPONDING QUICKLY AND DECISIVELY TO PRODUCT EMERGENCIES. A RECENT DEMONSTRATION OF THIS ROLE OCCURRED IN THE TYLENOL EMERGENCY AND THE RECENT CONCERN WITH GLASS IN BABY FOOD.

BECAUSE OF THE NATIONWIDE DEPLOYMENT OF OUR FIELD INSPECTORS AND LABORATORY PERSONNEL, AND BECAUSE OF THEIR INTERDISCIPLINARY SKILL AND EXPERIENCE, WE ARE ABLE TO RESPOND QUICKLY TO EMERGENCIES THAT MAY ARISE, AND WE CAN WORK AROUND THE CLOCK IN CONCERT WITH OUR SISTER AGENCIES AT THE STATE AND FEDERAL LEVELS WHEN PUBLIC HEALTH IS JEOPARDIZED. IN THE CASE OF DRUG-TAMPERING, WE LEARNED ABOUT A DEATH THE AFTERNOON OF FEBRUARY 10. BY THAT EVENING, WE HAD COLLECTED ALL SAMPLES OF THE DRUG FROM THE STORE WHERE IT WAS PURCHASED. WITHIN 3 DAYS WE HAD ANALYZED OVER 70,000 CAPSULES OF THE DRUG, AND WITHIN 3 WEEKS WE HAD ANALYZED OVER 1 MILLION CAPSULES. WITHIN 5 DAYS WE HAD ALSO THOROUGHLY RE-INSPECTED ALL THREE PLANTS WHERE THE DRUG WAS PRODUCED. OF COURSE, THE RESPONSIBLE COOPERATION OF THE MANUFACTURER OF THE DRUG WAS EXTREMELY HELPFUL IN DEALING WITH THIS CRISIS.

WHILE THIS DRUG EMERGENCY WAS IN FULL SWING, WE ALSO HAD A REPORT OF GLASS IN BABY FOOD ON FEBRUARY 14. WITHIN A WEEK, WE HAD RE-INSPECTED ALL THREE FACILITIES PRODUCING THE BABY FOOD AND HAD EXAMINED 6,000 JARS FOR GLASS FRAGMENTS. WE HAD INCREASED THAT NUMBER TO OVER 40,000 JARS BY EARLY MARCH.

INTENSIVE EFFORTS TO INVESTIGATE BOTH OF THESE SITUATIONS WERE CONDUCTED CONCURRENTLY AT A NUMBER OF GEOGRAPHICALLY DISPERSED LOCATIONS THROUGHOUT THE UNITED STATES. BECAUSE WE HAVE A NATIONALLY DISPERSED FIELD STAFF WHO ARE INVOLVED IN ROUTINE INSPECTIONS AND SURVEILLANCE OF THE INDUSTRY WE REGULATE, WE ARE IN A POSITION TO REDIRECT THE STAFF IMMEDIATELY TO COPE WITH EMERGENCIES THAT MAY

ARISE. THIS STAFF RESOURCE IS REALLY THE BACKBONE OF OUR RISK MANAGEMENT AND PUBLIC HEALTH ENFORCEMENT CAPABILITY.

REGULATIONS

NOT AS DRAMATIC AS OUR EMERGENCY EFFORTS BUT EQUALLY IMPORTANT ARE OUR LONGER-RANGE EFFORTS TO PROTECT THE PUBLIC HEALTH BY DEVELOPING NEW OR REVISED REGULATIONS. IN SOME CASES, WE MUST DEVELOP NEW WAYS TO DEAL WITH KNOWN RISKS, WHILE IN OTHER CASES WE CAN USE LABELING AND EDUCATION AS AN ALTERNATIVE TO REMOVING OR CHANGING PRODUCTS ON THE MARKET. AT THE SAME TIME, WE ALSO STRIVE TO MAKE REGULATION LESS BURDENSOME WHEN PUBLIC HEALTH CONSIDERATIONS PERMIT, TO REDUCE THE COST TO INDUSTRY AND THE RESULTANT COST TO THE CONSUMER AND TO OUR NATIONAL ECONOMY, AND TO DEVELOP AND PROMOTE THE SAFE USE OF NEW TECHNOLOGIES, SUCH AS THE USE OF FOOD IRRADIATION.

I HAVE ALREADY DISCUSSED SOME OF THE IMPORTANT REGULATIONS WE HAVE DEVELOPED ON THE BASIS OF OUR RISK ASSESSMENT ACTIVITIES, SUCH AS ALLOWING THE USE OF METHYLENE CHLORIDE IN SOME CASES WHILE RESTRICTING IT IN OTHER PRODUCTS. I WOULD ALSO LIKE TO MENTION THREE OTHER MAJOR ISSUES OF CONCERN TO US THIS PAST YEAR--REYE SYNDROME, SULFITES, AND FOOD IRRADIATION.

REYE SYNDROME

A RISK MANAGEMENT LANDMARK IN 1985 WAS THE VOLUNTARY PROGRAM TO LABEL ASPIRIN PRODUCTS AND TO ALERT THE PUBLIC TO THE POSSIBLE ASSOCIATION OF ASPIRIN AND REYE SYNDROME IN

CHILDREN AND TEENAGERS WITH FLU OR CHICKEN POX. UNDER THIS PROGRAM, ALL OF THE MEMBERS OF THE ASPIRIN FOUNDATION, AN ASSOCIATION OF MAJOR PRODUCERS OF ASPIRIN, VOLUNTARILY RELABELED THEIR PRODUCTS, AND FDA JOINED THE INDUSTRY IN A MAJOR PUBLIC INFORMATION CAMPAIGN THAT MADE OVER 80% OF PARENTS AWARE OF THE SITUATION BY THE END OF JUNE. A CENTER FOR DISEASE CONTROL MORBIDITY AND MORTALITY WEEKLY REPORT ATTRIBUTES THE DECLINING NUMBERS OF REYE SYNDROME CASES FOR 1985, NOTWITHSTANDING THE CONCOMITANT INCREASE IN THE INCIDENCE OF FLU, TO THIS PUBLICITY. THE EDUCATIONAL EFFORT HAS CONTINUED THIS YEAR TO INCREASE AWARENESS STILL FURTHER, ESPECIALLY AMONG TEENAGERS. TO ENSURE CONSISTENCY OF LABELING LANGUAGE AND FULL COMPLIANCE, WE ISSUED A FINAL REGULATION ON MARCH 7, 1986, FOLLOWING UP ON THE VOLUNTARY EFFORT TO GET THE WORD OUT QUICKLY. THUS, THE MEANS ARE IN PLACE TO PREVENT A POTENTIALLY DEADLY SIDE EFFECT OF WHAT IS OBVIOUSLY A VERY IMPORTANT PRODUCT FOR MANY USES.

SULFITES

I WOULD NOW LIKE TO DESCRIBE THE AGENCY'S PROGRESS IN ANOTHER AREA BOTH OF CONSUMER AND OF CONGRESSIONAL CONCERN: THE USE OF SULFITING AGENTS. BECAUSE SO MUCH NEW INFORMATION ON THE SAFETY OF SULFITES HAD BECOME AVAILABLE SINCE THE 1976 REPORT BY THE FEDERATION OF AMERICAN SOCIETIES FOR EXPERIMENTAL BIOLOGY (FASEB) ON THE ISSUE, WE REQUESTED FASEB TO LOOK AT THIS SUBJECT AGAIN. FOLLOWING FASEB'S CONCLUSION THAT THE SUBSTANCE DID INDEED POSE A THREAT TO SULFITE-SENSITIVE MEMBERS OF THE PUBLIC WHEN USED IN CERTAIN FOODS, WE HAVE PUBLISHED PROPOSALS THAT WILL DO SEVERAL THINGS: (1) CLARIFY WHEN SULFITES IN ANY FOODS MUST BE DECLARED ON THE

LABEL; (2) REVOKE THE GENERALLY RECOGNIZED AS SAFE, OR GRAS, STATUS OF SULFITES ON THOSE FRUITS AND VEGETABLES THAT ARE SERVED OR SOLD RAW; AND (3) REQUIRE WARNING STATEMENTS IN THE PROFESSIONAL LABELING OF PRESCRIPTION DRUGS CONTAINING SULFITES. WE ARE CURRENTLY REVIEWING THE MANY COMMENTS WE HAVE RECEIVED ON THESE PROPOSALS. WE ARE ALSO CONSIDERING CHANGING THE GRAS STATUS OF THE USE OF SULFITES ON POTATOES OR IN POTATO PRODUCTS.

BY THIS APPROACH TO THE MANY USES OF SULFITES, WE HAVE TAKEN STRONG ACTION TO DEAL WITH THOSE USES THAT CLEARLY POSE A RISK, WHILE IN OTHER CASES WE HAVE DEMONSTRATED THAT WE MUST ANALYZE CAREFULLY THE LEVEL OF RISK AND HOW IT CAN BE MINIMIZED WITH RESPECT TO DIFFERENT FOOD PRODUCTS.

FOOD IRRADIATION

ANOTHER ISSUE WHICH HAS BEEN OF CONCERN TO THIS SUBCOMMITTEE FOR SEVERAL YEARS IS THE PROMOTION OF FOOD IRRADIATION AS AN ALTERNATIVE TO CHEMICAL MEANS OF FUMIGATION OF FRESH FRUITS AND VEGETABLES. WHILE WE HAVE KNOWN THAT THE PROCESS BASICALLY IS SAFE, WE HAVE HAD TO STUDY A NUMBER OF COMPLEX ISSUES, IN CLOSE COORDINATION WITH USDA, RELATING TO WHAT LEVELS OF IRRADIATION ARE EFFECTIVE AND TO THEIR POSSIBLE EFFECTS ON THE MARKETABILITY OF THE PRODUCTS. AT THE SAME TIME, WE HAVE COME UP WITH A WAY TO MEET THE LEGISLATED REQUIREMENT FOR LABELING OF IRRADIATED PRODUCTS THAT WILL ENABLE CONSUMERS TO KNOW THAT THE PROCESS HAS BEEN USED, WITHOUT CREATING CONSUMER CONFUSION OR UNNECESSARY COSTS TO THE INDUSTRY, AND WITHOUT REQUIRING LANGUAGE THAT WOULD ENGENDER NEEDLESS FEAR OF THE PROCESS.

THE FINAL REGULATION WILL BE PUBLISHED IN THE VERY NEAR FUTURE, AND I BELIEVE THAT THIS WILL BE CONSIDERED A LANDMARK DEVELOPMENT THAT WILL FOSTER THE USE OF THIS PROCESS, THEREBY PROVIDING BETTER AND SAFER PRODUCTS FOR THE PUBLIC AND ALSO ENHANCING THE MARKET POTENTIAL FOR THE PRODUCERS, NOT ONLY IN THIS COUNTRY BUT ALSO FOR EXPORT.

RESOURCES

NOW LET ME ADDRESS AGENCY RESOURCES, STARTING WITH THE IMPACT OF THE GRAMM-RUDMAN-HOLLINGS ACT ON THIS FISCAL YEAR. EFFORTS TO ACCOMMODATE THE REDUCTIONS IMPOSED AS A RESULT OF THE GRAMM-RUDMAN-HOLLINGS ACT WELL INTO THIS FISCAL YEAR HAVE PRESENTED US WITH A DIFFICULT CHALLENGE. A LARGE PART OF THE DIFFICULTY ARISES FROM THE FACT THAT ABOUT TWO THIRDS OF OUR APPROPRIATED DOLLARS GO TO PAY THE SALARY AND BENEFITS OF FDA EMPLOYEES, WHO ARE THE AGENCY'S MOST IMPORTANT AND PRECIOUS RESOURCE. THE VALUE OF THIS RESOURCE IS PARTICULARLY EVIDENT AT TIMES OF A PRODUCT EMERGENCY, SUCH AS THE RECENT DRUG-TAMPERING AND BABY FOOD INCIDENTS. IT IS WITH SOME PRIDE AND SATISFACTION THAT I CAN REPORT TO YOU THAT IT NOW APPEARS THAT FDA CAN GET THROUGH THE FISCAL YEAR WITHOUT HAVING TO RIF OR FURLOUGH EMPLOYEES, ALTHOUGH WE ARE NOT TOTALLY OUT OF THE WOODS YET.

WE HAVE BEEN ABLE TO ACCOMPLISH THIS ONLY THROUGH AN EXTRAORDINARY PULLING TOGETHER OF AGENCY EMPLOYEES IN THE FACE OF THIS CHALLENGE, AND BY MAKING SOME TRULY DIFFICULT DECISIONS. THESE INCLUDE A VIRTUAL FREEZE ON MOST HIRING FOR THE REST OF THE FISCAL YEAR, AND CUTS IN OPERATING SUPPORT FOR EXISTING EMPLOYEES. ALTHOUGH REGULATORY TRAVEL WILL BE

FUNDED AT THE LEVEL ORIGINALLY PLANNED, ALL OTHER TRAVEL WILL BE REDUCED BY 50% FOR THE BALANCE OF THE FISCAL YEAR, AND OUR TOTAL FUNDS FOR SUPPLIES AND FOR EQUIPMENT WILL BE REDUCED BY 18% AND 41%, RESPECTIVELY. FUNDING AT THESE REDUCED LEVELS COULD NOT BE RESPONSIBLY SUSTAINED FOR MORE THAN A FEW MONTHS, AND THE 1987 ESTIMATES FOR FDA WOULD RESTORE US TO PRE-GRAMM-RUDMAN-HOLLINGS OPERATING LEVELS, AND PROVIDE FOR SOME PROGRAM INCREASES.

1987 BUDGET REQUEST

OUR TOTAL REQUEST FOR 1987 IS FOR $449.4 MILLION, OF WHICH $25.8 MILLION WOULD BE DERIVED FROM THE NEW PRODUCT REVIEW CHARGES. THE REQUESTED AMOUNT WILL MAINTAIN THE PRE GRAMM-RUDMAN-HOLLINGS LEVEL OF PROGRAM OPERATIONS AND ALLOW FOR SIGNIFICANT PROGRAM ENHANCEMENTS ASSOCIATED WITH THE AGENCY'S ACTION PLAN IN THE AREA OF NEW DRUG REVIEW. THE PROGRAM INCREASES WOULD BE ENTIRELY IN THE AREA OF HUMAN DRUGS, AND WOULD BE USED TO FURTHER IMPROVE THE PROCESS BY WHICH WE REVIEW THE SAFETY AND EFFICACY OF NEW DRUGS.

THE FUNDING INCREASE WOULD BE DERIVED FROM PRODUCT REVIEW CHARGES FOR FDA'S DRUG APPROVAL ACTIVITIES. WE THINK THESE CHARGES ARE APPROPRIATE BECAUSE THE AGENCY'S ACTIVITIES IN THIS AREA CLEARLY BENEFIT INDUSTRY AT THE SAME TIME THEY PROTECT CONSUMERS. THEREFORE, WE ARE DEVELOPING A LEGISLATIVE PROPOSAL TO AUTHORIZE THE COLLECTION OF SUCH CHARGES FOR OUR REVIEW OF NEW PRODUCT APPROVAL APPLICATIONS, NOT UNDER AUTHORITY OF THE USER CHARGE ACT, BUT UNDER SPECIFIC STATUTORY AUTHORITY. REVENUES FROM THESE COLLECTIONS WOULD BE USED TO OPERATE AND TO IMPROVE THE

AGENCY'S NEW PRODUCT EVALUATION PROCESSES, WHILE AT THE SAME TIME REDUCING THE LEVEL OF APPROPRIATIONS. WE ARE FULLY COGNIZANT OF THE COMMITTEE'S PAST CONCERNS ON USER CHARGES, AND THAT IS WHY WE ARE DEVELOPING A NEW SEPARATE LEGISLATIVE PROPOSAL, TO ALLOW FOR FULL REVIEW OF THE ISSUE.

FINALLY, I WOULD LIKE TO CONCLUDE BY SHARING WITH YOU THE RESULTS OF A RECENTLY CONDUCTED ROPER SURVEY, WHICH INDICATES THAT FDA REMAINS FAVORABLY CONSIDERED BY THOSE POLLED. IN FACT, OUT OF 15 FEDERAL AGENCIES, FDA RANKS THIRD IN THE OPINION OF THOSE SURVEYED. WE ARE PROUD OF OUR STANDING WITH THE AMERICAN PUBLIC, AND WILL MAKE EVERY EFFORT TO CONTINUE THE LEVEL OF AGENCY PERFORMANCE THAT HAS EARNED IT. OUR BUDGET REQUEST FOR 1987 WILL ALLOW US TO DO THAT.

MR. CHAIRMAN, THIS CONCLUDES MY PREPARED REMARKS. I WOULD BE HAPPY TO RESPOND TO ANY QUESTIONS YOU OR THE OTHER MEMBERS MAY HAVE.

BIOGRAPHICAL SKETCH

DR. FRANK E. YOUNG

Frank E. Young, M.D., Ph.D., Commissioner of the Food and Drug Administration, was born in Mineola, New York in 1931 and was educated in Union College, the Medical Center of the State University of New York (M.D., Cum Laude) and Case Western Reserve University (Ph.D.). After internship and residency in Pathology in University Hospitals in Cleveland, Ohio, Dr. Young served on the Faculty of Case Western Reserve University (1962-1965), Scripps Clinic and Research Foundation (1965-1970) and University of California at San Diego (1967-1970). In 1970 he became Chairman of the Department of Microbiology and Professor of Microbiology, of Pathology and of Radiation Biology and Biophysics at the University of Rochester, Rochester, New York. Concurrently he directed the Clinical Microbiology Laboratories for Strong Memorial Hospital and the County of Monroe. Subsequently he was appointed Dean of the School of Medicine and Dentistry and Director of the Medical Center of the University of Rochester (1979-1984) and Vice President for Health Affairs (1981-1984). Additionally he served as Chairman of the Executive Hospital Committee of Strong Memorial Hospital (1979-1984), Chairman of the Medical Advisory Committee, Monroe Community Hospital (1979-1984) and Pathologist, Strong Memorial Hospital (1974-1984).

While Commissioner of FDA Dr. Young participated as a Member of the U.S. Delegation to the World Health Assembly in Geneva, Switzerland, 1985; lead the U.S. Delegation to the Third U.S./Israeli Symposium on Health, Jerusalem, 1985; participated in the Conference of Experts on the Rational Use of Drugs, Nairobi, Kenya, 1985; and Headed the State Department Delegation to the Ad Hoc Biotechnology Working Group of the Organization of Economic Cooperation Development, Paris, France, 1985, which resulted in the negotiation of an international agreement in Biotechnology. Dr. Young's area of research is biotechnology including the fundamental genetics of pathogenic and non-pathogenic bacteria. These studies were supported by grants from the National Institutes of Health, National Science Foundation, American Cancer Society, and industry. He has received numerous awards including membership in the Institute of Medicine of the National Academy of Sciences, the Edward Mott Moore Award for the outstanding physician from the Monroe County Medical Society, honorary degrees from Roberts Wesleyan College (Doctor of Science, 1983) and Houghton College (Doctor of Science, 1984) and was a member of ten scientific societies. He has served on NIH advisory committees, including the Recombinant DNA Advisory Committee (1979-1980), the Microbiology Training Study Section (1972-1973), the Bacteriology and Mycology Study Section (1975-1979), and was chairman of the Microbial Genetics Study Section (1981-1982). He also was a member of the Scientific Advisory Committee for Virology and Cell Biology Study Section of the American Cancer Society (1974-1979).

He and his wife Leanne have five children.

BUDGET FOR THE FOOD AND DRUG ADMINISTRATION

Dr. YOUNG. Thank you very much, Mr. Chairman. I will make a very brief comment so that it will give you plenty of opportunity for questions. But first, I would like to introduce those who are with me today. Mr. John Norris, the Deputy Commissioner, on my immediate left; Mr. Thomas Scarlett, who is General Counsel for FDA; Mr. Gerry Meyer, who is our Associate Commissioner for Management and Operations; and Mr. Frank Claunts, the Director of FDA's Division of Financial Management.

I would only like to comment, sir, on one particular issue, and that is the President's budget. The President's budget request of $449.4 million to be available in 1987 for FDA would enable us to fully meet the responsibilities that we have under the public health laws we administer.

This is made up of a combination of user fees and appropriations. Approximately $423 million is requested for appropriations authority, and another $26 million is to be collected, if this be appropriate, in the form of user fees.

With this entire amount, we would be able to fully meet our mission. I must also point out that I would be deeply concerned, and am deeply concerned, that lesser amounts of funds would not enable us to meet the responsibility and provide the quality of protection for the public that I feel, and I am sure you feel, they not only deserve, but expect.

Thus, we sincerely request the approval of the full amount of the President's budget.

Thank you, Mr. Chairman.

USER FEES

Senator COCHRAN. Thank you, Dr. Young. I noticed in the request for funding that it is assumed that some $25.8 million would be derived from user fees. We have been put in a difficult position over the past few years because, while we don't have the responsibility to make legislative decisions such as authorizing user fees, we have been put in a position of supplementing the requested amount appropriated in order for the agency to meet its legal responsibilities.

Dr. YOUNG. Yes.

Senator COCHRAN. Do you know whether or not the administration is going to push the authorizing committees to legislate these user fees or whether you are just going to be $25.8 million or so short if we don't supplement the request which has been submitted to our committee?

Dr. YOUNG. The legislation, we believe, is going to be submitted for sponsorship in Congress. You are absolutely correct, however, that not only is the $25.8 million dependent on the user fees, but also $11.4 million of our existing operational budget is within that $25.8 million, so that of that, $11.4 million meets existing needs, and the remainder of that would be $14 million, which would be for improvements.

We think that this will be forthcoming in June, and there is tentatively scheduled a hearing on June 4 before Senator Hatch. What I must hasten to add is that if those funds are not available for the agency in fiscal year 1987, we would see a substantial decrease in not only the drug approval program, but also other approval programs and some compromise in our other activities uniformly, across the board.

BUDGET RESOLUTION LEVEL FOR FDA

Senator COCHRAN. The budget resolution that is being considered by the Senate today provides authority for this agency of only $403 million for next year. What would be the impact on the agency and its ability to discharge its legal responsibilities if this committee stayed within the limits of the budget resolution? It is on the Senate floor right now.

Dr. YOUNG. I am sorry to inform you, Senator, that if that budget resolution were enacted for the Food and Drug Administration, there would be, in my opinion, grave consequences. We would see a substantial slowdown in the approval process. Instead of our hoped-for decrease in the approval time from 25 to 12 months on new drug applications, we would approach what might be up to 40 months. Our device approval process, which is already in substantial difficulty, would be slower; and similarly, we would have some major problems in regard to foods and veterinary medicine.

This has been a particularly difficult year for the Food and Drug Administration as we have been faced with a variety of tamperings and emergency activities. We feel that we would not be able to discharge these as well.

It is also particularly unfortunate that in the case of imports, we are only currently able to inspect about 5 percent of all imported foods coming into the United States, and thus, we have two levels of requirements: those for the foods that are made domestically, which are under good and safe public health and regulatory control; and those which might be able to come into the country subject to about a 5-percent inspection rate. Under these circumstances, our farm community, particularly, is penalized.

I would also predict our domestic inspections would decrease. One of the points that enabled us to deal, in my opinion, so effectively with the Gerber food crisis was our ability to know the food plants we had inspected in the last year, and to know the good manufacturing practices.

Finally, the milk episode, which was the single largest outbreak of food poisoning in milk in the United States, involving salmonella, was able to be dealt with using an effective State and Federal cooperation. Those types of emergency actions would be compromised because we would have to completely abolish all State and Federal contracts. We have been forced this year to reduce these contracts by 50 percent. If we don't receive the full appropriation, we would have to abolish all of those State-Federal partnerships, which we feel would be detrimental. There would be grave consequences for the entire agency, and I have only highlighted a few.

We feel the budget that the President submitted would fully meet our needs, though.

Senator COCHRAN. Senator Kasten?

Senator KASTEN. Mr. Chairman, thank you.

CRANBERRY JUICE LABELING

Dr. Young, I wanted to ask a few questions on the subject that I understand you have been meeting with a number of Senators and Congressmen on, and that we, I know, have batted back and forth for some time. This is this cranberry labeling issue.

You, I hope, are aware that the conference committee report on the fiscal year 1985 continuing resolution required that FDA exempt cranberry juice products containing more than 15 percent cranberry juice from labeling requirements for diluted fruit juices.

It has been over a year and a half since Congress directed the FDA to do this. What is the status of this matter as of today?

Dr. YOUNG. I am pleased to inform you that we have been working very hard on this. I have met with both industry and Congress. I have spoken with Mr. Conte in the House a short time ago.

One of the requests which we made was that we get some information from industry defining the 15-percent level so that we could make our rules and have rules that would prevail.

We feel that the 15-percent level is an appropriate level. I have asked Dr. Miller in the Center for Food Safety and Applied Nutrition to proceed with that, and we are moving down that path. However, we had been delayed by not receiving some information in a timely fashion that would enable us to put the regulation in place.

But we agree that it would be appropriate to use the 15-percent level. I could ask Dr. Miller, who is here, to give you a further update, if you would like.

Senator KASTEN. Let me ask one or two more questions. It is my understanding that the Food and Drug Administration does not have to have any additional data, and specifically, doesn't have to have the scientific data from the industry before proposing regulation for public comment. Is that correct?

Dr. YOUNG. One might view that that would be an appropriate way to proceed, but as a scientific organization, we felt that if we had the data on which to act, we would be much more likely to prevail in the rulemaking process. That is why we have tried to gather the information.

REGULATION PROPOSAL

Senator KASTEN. But you have already suggested to us, and others have as well, that there is no objection to this; there is general agreement among people that are familiar with the industry and familiar with cranberries.

Why have you insisted on dragging your feet for 18 months on a small matter like this? You are talking about shortening the regulatory process or making it more scientific, but I think it is ridiculous to wait for months and years before issuing a regulation for public comment because you want to have certain additional data. Why don't you just go ahead right now?

Dr. YOUNG. We will put this regulation forth as rapidly as we can.

Senator KASTEN. How rapidly is as rapidly as we can? Are we talking about days or weeks or months, or, in this case, years?

Dr. YOUNG. I would think in a few months, we would be able to issue that regulation for comment.

Senator KASTEN. Within a few months?

Dr. YOUNG. Yes, sir.

Senator KASTEN. So we are saying that the regulation will probably be published in June or July. I mean, it doesn't seem to me to be that complicated. It is not as if there are big forces holding different positions. We have got certain facts about cranberries that are understood and not in dispute.

Dr. YOUNG. I absolutely agree with you that no one will be able to get out much juice from that little berry, and I was surprised when I made my visit to Mr. Conte's office to try to resolve this, now almost a year ago.

Senator KASTEN. You have had a meeting with him more recently than that.

Dr. YOUNG. Yes; we have.

Senator KASTEN. Mr. Chairman, I ask unanimous consent to include in the record at an appropriate point the correspondence that has been taking place between a number of people, including the chairman of the full Appropriations Committee.

Frankly, we are running out of patience. I am pleased to hear you say that we can do this within a month or two.

Dr. YOUNG. I will promise you that we will move ahead on this. It is something that I, too, would like to clean up. There is no sense in not getting the regulation out.

Senator KASTEN. I appreciate your answer. I am frustrated.

Dr. YOUNG. I am, too.

Senator KASTEN. If there were an issue where there were two competing sides, I could understand why it should take so much of your time and our time.

Dr. YOUNG. It is a simple issue. You just don't get a large amount of juice out of a cranberry.

Senator KASTEN. I would like to ask that you continue to keep in touch with us, to keep us aware of the various steps that you are taking.

I don't want to be in the position of having to write these regulations as part of a continuing resolution. The regulation-making business is your job, not ours.

On the other hand, I think you do have a responsibility, and you have announced that you understand that responsibility, to work this through. Please keep us informed on these steps as you take them. We look forward to working with you.

Dr. YOUNG. Absolutely, and I promise that within the next months, I will get back to you personally, and we will give you an update as to where we are.

Senator KASTEN. Dr. Young, Thank you.

I have a couple of other questions which I would like to submit for the record. Thank you.

Senator COCHRAN. Without objection, the material you referred to will be included in the record, in the transcript of the hearing.

[The information follows:]

LETTER FROM HON. MARK HATFIELD, U.S. SENATOR FROM OREGON

December 19, 1985

Mr. Frank E. Young
Commissioner
Food and Drug Administration
5600 Fishers Lane
Rockville, Maryland 20857

Dear Mr. Young:

Last year the conference committee report on the FY 85 Continuing Appropriations bill (Report 98-1159), adopted language stating that "the proposed exemption to 21 CFR 102.33 for cranberry juice cocktail should be extended to include all cranberry juice-based beverages containing more than 15 percent cranberry juice".

It has come to my attention that FDA has failed to act on this matter, despite the language in the Statement of the Managers in the conference committee report. Due to your failure to respond to congressional direction, I look forward to hearing from you personally at your earliest convenience regarding the action you intend to take to implement this particular directive.

Sincerely,

Mark O. Hatfield
Chairman

cc: James C. Miller, III
Director
Office of Management and Budget

Letter From Hon. Mark Hatfield, U.S. Senator From Oregon

December 19, 1985

The Honorable James C. Miller III
Director
Office of Management and Budget
Old Executive Office Building
Washington, D.C. 20500

Dear Jim:

Last year the conference committee report on the FY 85 Continuing Appropriations bill (Report 98-1159) specifically included language stating that "the proposed exemption to 21 CFR 102.33 for cranberry juice cocktail should be extended to include all cranberry juice-based beverages containing more than 15 percent cranberry juice."

It has been a year since that language was included in the conference report, yet it has come to my attention that the FDA has not acted on this matter. I do not believe the congressional directive could be clearer and yet no action has been taken.

It is my understanding that OMB may be partly responsible for the delay in granting this exemption. I refer you to an enclosed letter from Christopher DeMuth, Administrator for Information and Regulatory Affairs at OMB, dated February 23, 1984. His letter seems to indicate that OMB is helping to keep the cranberry juice exemption stalled because it would prefer to drop the juice labeling regulation in its entirety. The cranberry juice exemption should not be held hostage to other goals that OMB might have, especially when Congress has made it very clear as to the actions that FDA is expected to take.

I look forward to hearing from you promptly regarding steps you intend to take to see that this exemption is granted.

Sincerely,

Mark O. Hatfield
Chairman

LETTER FROM JAMES C. MILLER, III, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

JAN 17 1986

Honorable Mark O. Hatfield
Chairman, Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mark:

This is in response to your letter of December 19, 1985, concerning the status of regulations pertaining to cranberry juice-based beverages. Your letter referenced the Congressional direction contained in the FY 1985 Continuing Appropriations bill.

Neither the Food and Drug Administration (FDA) nor the Department of Health and Human Services has submitted any regulation pertaining to cranberry juice-based beverages for our review under Executive Order Nos. 12291 or 12498 since enactment of the FY 1985 Continuing Appropriations bill. We are not holding any rule "hostage" or delaying an exemption.

You should be aware that currently there is no requirement that cranberry juice beverages declare quantitative juice content on the labeling, and therefore cranberry juice beverages are, at present, regulated no differently than similar juice beverages.

If and when FDA submits to us a regulation affecting cranberry juice beverages, the Office of Management and Budget will conduct its review as expeditiously as possible.

Sincerely yours,

James C. Miller III
Director

LETTER FROM FRANK E. YOUNG, COMMISSIONER OF FOOD AND DRUGS

February 25, 1986

The Honorable Mark O. Hatfield
Chairman, Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This is in further response to your letter of December 19, 1985 concerning cranberry juice cocktail. Last year a conference report of the Committee on Appropriations adopted language stating that an FDA-proposed exemption to the labeling requirements contained in Title 21, Code of Federal Regulations section 102.33 for cranberry juice cocktail should be extended "to include all cranberry juice-based beverages containing more than 15 percent cranberry juice." In your letter you question what action we have taken in response to the statement contained in the report.

The Agency is aware of this language in the report to which you refer and has been actively engaged in trying to find an appropriate way to settle this matter.

As you may be aware, our administrative procedures require that all interested parties be permitted an opportunity to comment on issues involved in the establishment of regulations. An exemption of all cranberry juice based beverages containing more than 15 percent cranberry juice was not raised by FDA's most recent proposal which was published in the Federal Register of June 1, 1984 (49 FR 22831 copy enclosed), nor was it included in any of the earlier rulemaking deliberations on cranberry juice beverages. Consequently, there has been no opportunity for public comment on this issue. Therefore, it is now necessary that the Agency issue a second proposal in which the issue of an exemption for diluted juice beverages containing more than 15 percent cranberry juice can be properly raised for public comment and from which a complete administrative record can be established.

We met with representatives of the cranberry juice industry in November 1985. At that meeting, the representatives of the industry assured us that information and scientific data supporting the 15 percent level do exist and advised us that they would make this information available to us for our consideration.

As of the date of this letter, we have not received this information. Once these materials are received, our intention is to continue our efforts at rulemaking in this matter.

I hope this information is both responsive and helpful. If I can be of any other assistance, please let me know.

Sincerely yours,

Frank E Young

Frank E. Young, M.D., Ph.D.
Commissioner of Food and Drugs

LETTER FROM HAROLD THORKILSEN, PRESIDENT, OCEAN SPRAY CRANBERRIES, INC.

Dr. Frank E. Young
Commissioner of Food & Drugs
Food & Drug Administration
Rockville, Maryland 20857

April 4, 1986

Dear Dr. Young:

The March 10, 1986 issue of Food Chemical News contains a report on page 30 which purports to summarize the content of a letter written by you to Senator Mark Hatfield under a date of February 25, 1986. (See copy, attached.) Presuming the report is substantially accurate, I wish to comment on some of the statements which it appears you made in that letter.

A conference report of the Senate Appropriations Committee in the year before last called for a proposed percent juice labeling exemption for cranberry juice cocktail to be extended to include all cranberry juice beverages containing more than 15% cranberry juice. In your pursuit of this matter you told Senator Hatfield that officials of your agency had met with representatives of the cranberry industry in November; that those industry representatives had assured the FDA "that information and scientific data supporting the 15% level do exist" and that they would make the information available to the FDA for its consideration. You said that the FDA had not yet received the information which had been promised.

We want to make it clear that representatives of Ocean Spray Cranberries, Inc., were not the "industry representatives" who promised to supply "scientific data" in support of the 15% level. We know nothing about any November meeting at which industry representatives are said to have made such a promise.

As all connected with this issue from the start have been aware, the cranberry is a particularly acidic fruit, low in water and difficult to consume undiluted. Therefore, it is uniquely unsuited to percent juice labeling. This is the underlying reason for the proposed exemption and the 15% threshold level reflects this underlying reason. It is the general level of cranberry juice content of blended cranberry juice beverages which consumers prefer and to which they have become accustomed. The 15% exemption level is an issue of consumer taste, not a scientific issue.

If you would like a regulation for juice beverage labeling which has a scientific basis, we suggest that you give serious consideration to our idea for labeling of the percent water present in juice beverages. The result might surprise you. "100%" pure orange juice is about 88% water, while our cranberry juice cocktail would measure about 86% water. Unlike the percent juice labeling approach, there is scientific logic in support of percent water labeling.

Sincerely,

H. Thorkilsen
President

Senator COCHRAN. Senator Specter?

Senator SPECTER. Thank you very much, Mr. Chairman.

I note that there is approximately $10 million that FDA has requested for AIDS research.

Dr. YOUNG. Yes.

Senator SPECTER. The question I have is, What will that be used for, and is it enough?

Dr. YOUNG. That request is an extraordinarily important request.

Senator SPECTER. Or is it too much?

Dr. YOUNG. I think that the request that we made is appropriate and fully meets our needs. This is what FDA must do. Regardless of how much research is done by NIH or industry, unless FDA approves the particular products, they will not reach the market. Because we have been able to increase our staff, we were able to bring on line the HTLV–III antibody test kits 10 weeks after we received the applications.

Right now we have been working very hard with the National Institutes of Health and with industry and are able to get investigational new drug applications approved in as short as 5 days. That only occurs because we are working closely.

Senator SPECTER. Are there any other governmental agencies besides NIH and FDA working on the AIDS research?

Dr. YOUNG. Yes, there are; the Centers for Disease Control is extensively involved in the epidemiological aspects of this study. The ADAMHA, the Alcohol, Drug Abuse and Mental Health section of the Public Health Service, is the particular agency looking at drug abuse and its relationship to AIDS, but it is our agency that is responsible for bringing the products on line.

Without this, without having the scientists and researchers that are involved in the approval process, we would delay the approval of the new drugs that would be coming on line.

Senator SPECTER. Do you have any concern at all that there is overlapping and duplication as a result of having so many Federal agencies engaged in this?

Dr. YOUNG. Not in our case at all. In our case, we really focus on the approval process. Neither NIH, CDC, nor ADAMHA focuses on that approach at all.

Senator SPECTER. What do you propose to accomplish with this $10 million?

Dr. YOUNG. We would accomplish the following things:

First, we are augmenting our staff so we can process the applications more rapidly.

Second, we are cooperating with the industry and the National Institutes of Health in testing the drugs and the vaccines, particularly the vaccines as they come forward.

Third, we are dealing with the research that is required to update the HTLV–III antibody test, and make it much more specific.

ARTIFICIAL HEART

Senator SPECTER. Dr. Young, we had an issue some time ago with the approval of the artificial heart in Hershey.

Dr. YOUNG. Yes, sir.

Senator SPECTER. Did that come under your jurisdiction?

Dr. YOUNG. Yes, it did, sir.

Senator SPECTER. My recollection was that it did, but I wanted to be sure.

Dr. YOUNG. And we worked hard with them and were able to get that approved as an additional site. I believe I communicated back and forth with you on a few occasions.

Senator SPECTER. I wanted to express my thanks to you for your prompt attention to that. I was asked to take a look at the program, and they were very much in a quandary as to how to proceed with emergency treatment.

Dr. YOUNG. That is right.

Senator SPECTER. Your administration responded very promptly to my inquiries, and shortly after those steps were taken, they had a celebrated case in Hershey, and they saved a man's life.

Dr. YOUNG. That is a very important case, and that just shows the type of thing that we need, coming back to AIDS, and also, the device issues that you are raising, of having a staff that can work very closely with institutions. If we can't be responsive, then we will see a loss of life and a loss of progress of technology in the United States.

Senator SPECTER. How does the Food and Drug Administration technically have jurisdiction over the artificial heart issue?

Dr. YOUNG. We have responsibility for a wide range of public health interests in the practice of medicine. In fact, almost 67 percent of the practice of medicine falls under the jurisdiction of FDA. We are responsible for all medical devices that come on the market, and this includes products as complicated as the artificial heart to simple devices, such as thermometers.

We are responsible for the approval of all the drugs, and we review both the safety and effectiveness of drugs and devices. In fact, as Commissioner, I found that devices are even more complicated in the approval process than drugs. As you could see there, we have taken a strong stand to facilitate the practice of medicine, not to second-guess the practice of medicine, and certainly not to intervene in the emergency practice of medicine.

Senator SPECTER. Thank you very much. That is very interesting.

Mr. Chairman, in view of the hour, I will not ask any further questions now, but I have a series of questions to submit for the record, if I may.

Senator COCHRAN. We appreciate your contribution to the hearing, Senator. I am confident that Dr. Young will have answers submitted for the record in a timely fashion. We would appreciate that very much.

Dr. YOUNG. Certainly.

FUNDING LEVEL

Senator COCHRAN. Thank you very much.

Dr. Young, is the funding level requested in this budget going to permit the agency to attract and retain qualified scientists and other personnel with special skills that are needed to discharge the responsibilities that you have under the law?

Dr. YOUNG. We feel that if the budget is fully funded that we will be able to meet these responsibilities, but as a former dean, I can add a few things that are important in attracting good talent, particularly young scientists.

We need to have a vigorous intellectual environment for us to attract individuals. Particularly, when it comes to recruitment of physicians, we have the hardest time. We are dependent on the ability to attract individuals who could double or triple their salary in private practice. Thus, the add-on salary that we have, that augmentation for physicians, is extremely important to us.

We also hope to remodel some of our drug approval facilities. Attracting a physician to work in a little over 100 square feet of space and sit in a room with 150,000 pages of drug approval applications is difficult.

In devices, we are in an even worse situation, because there we are scattered widely around the metropolitan area in multiple buildings.

However, if we receive the funds that are within the President's budget, we feel that we will be able to address these concerns. If we were operating, however, on the Senate resolution or without the amount of the user fees, we would be greatly disadvantaged, and our improvement would be compromised. We found the negative signal on the budget has adversely affected recruitment because, with declining recources, people do not look at Government as an attractive career.

I find that very difficult because I personally feel, having left a deanship a short time ago to enter public service, as having made an exciting move to make a contribution.

SUBMITTED QUESTIONS

Senator COCHRAN. I have further questions. Unless there is any objection, we will submit these in writing and ask you to respond in writing to them. We appreciate your being here and your cooperation with our committee.

We wish you well in the important work that you do.

[The following questions were not asked at the hearing but were submitted for response for the record:]

FOOD AND DRUG ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR COCHRAN

User Charges

QUESTION: Dr. Young, can you tell us what amount was requested by the Secretary to support FDA when your budget was submitted to OMB?

ANSWER: The request to OMB included $472.9 million in budget authority for operating salaries and expenses for FDA and $31.3 for Buildings and Facilities projects, for a total of $504.2 million.

QUESTION: For the past few years, the Committee has been put in a very difficult position, because many feel that it is not the appropriations committee's responsibility to make legislative decisions. FDA has a very important mission to carry out, and when your funds are shorted because you are not allowed to supplement them with user-fee collections, you are not able to do as had been planned or projected. Have you any idea why your budget request is submitted to Congress with assumed legislative savings subtracted from the total amount?

ANSWER: We believe that a good case can be made for asking the industry to pay for FDA's cost incurred in evaluating a request for product approval. Such industry payments could fund some of the costs of these activities, and provide revenue for improving the way this work is done--without appropriated dollars. As shown in our budget justification to the Committee, we would use a portion of these funds to provide needed improvements in our drug review process, which will result in faster availability of new drug products. While industry will clearly benefit from being able to market its products sooner, the critical point is that accelerating the drug approval process by an infusion of funds from user charges will greatly enhance our ability to promote the public health by encouraging innovation and making available new treatments faster.

Also, this method of budget presentation is used government-wide for budget requests to Congress in cases where the Administration submits legislative changes having significant budgetary impacts.

QUESTION: Have your legislative proposals for user charges been submitted to the authorizing committees yet?

ANSWER: No, but the proposal is in the final stages of clearance with OMB and should be transmitted to Congress in the very near future. We understand that the Senate Labor and Human Resources Committee has scheduled a hearing on this issue in early June, and the Agency looks forward to this further opportunity to explain its proposals.

QUESTION: What will be the impact if, for whatever reason, the user charge proposal does not come about and you end up with the $423.6 million appropriation?

ANSWER: All of the projected user charges are to be used for the new drug evaluation program. $14.4 million will be used for an increase in this program, but the first $11.4 collected will be credited toward sustaining the current level of operations in this program. Our budget request is based on a total level of spending including the projected user charges for much needed improvements to our drug review program. If we cannot collect the fees, and depending on our final 1987 appropriations, we would have to scale down or eliminate these improvements.

If our final 1987 appropriation is $423.6 million and user charges do not come about, we will have to make reductions in new drug review as well as in all other FDA programs, since the projected funding requirement for the current level of operations (before the Gramm/Rudman sequestration of funds in 1986) is $435 million.

Product Tampering/Contingency Fund

QUESTION: What has been the impact of the recent Tylenol and other product-tampering incidents?

ANSWER: Since February 1986, FDA has spent over $500,000 in extraordinary costs for overtime, supplies, and other unusual operating costs. These costs include not only the investigation and resulting sample analyses of Johnson and Johnson's Tylenol capsules, but also SmithKline Beckman's products of Contac, Dietac, Teldrin, and all other complaints associated with drug product tamperings. FDA has received over 400 complaints associated with Tylenol and has analyzed over 1.5 million capsules. With respect to SmithKline Beckman products, FDA, working with the FBI, found tainted capsules in only Orlando, Florida, and Houston, Texas; yet the Agency received some 67 consumer complaints in 27 States involving these products. All were investigated, and the FDA analyzed some 40,000 capsules of these products prior to their removal from the marketplace. We have not yet completed calculating the total costs of these incidents.

Question. What is the status of the Contingency Fund that was established in fiscal year 1983 to provide for the unusual costs of such incidents?

Answer. We have asked and received OMB approval to allow us to use $500,000 of the $1 million of no-year contingency monies appropriated in 1983 to recover our extraordinary costs this year associated with the Tylenol emergencies as well as problems concerning glass in baby food. The total extraordinary costs associated with both emergencies have already exceeded $500,000 and are still mounting.

QUESTION: In your statement, you give an accounting of FDA's most responsive and quick action in analyzing the Tylenol capsules and jars of baby food. Who actually does these investigations? Does FDA have enough personnel to carry out an investigation of such magnitude? What other agencies assist?

ANSWER: FDA personnel, located throughout the country, conduct the product tampering investigations and analyze the samples. We believe FDA has enough personnel to conduct investigations of this magnitude as was shown during the recent crisis. However, when we are forced into these types of crisis situations we must reduce our planned activities of routine inspections and sample analysis in other areas.

FDA personnel work with the FBI and State and local law enforcement officials in tampering investigations on a case by case basis. State and local health departments may also assist depending upon the nature of the particular matter under investigation.

Gramm-Rudman-Hollings

QUESTION: At the time your budget notes were prepared, you were not able to provide us the effects of the March 1, 1986 sequestration. What has been the impact of the sequestration of funds under Gramm-Rudman-Hollings on your current operations? Will you need to furlough or RIF any employees? How will this impact on fiscal year 1987's budget?

ANSWER: FDA has sought to soften as much as possible the effect of the 4.3 percent reduction on the current operations of the Agency's programs. To do this, we began reducing in January prior to the sequestration order certain operating costs such as travel, supplies, support contracts, equipment and research contracts. The reductions under these categories will be relatively large because FDA is a personnel-intensive Agency, with two-thirds of its budget going directly for personnel salaries and benefits. At this time we estimate that current year travel costs will be reduced by 16 percent, although tracel for inspections will be maintained at current levels at the expense of travel support for other activities. Printing costs will be decreased by 17 percent, although efforts will be made to ensure that publications in direct support of regulatory efforts will be maintained. Funding for supplies and equipment will be reduced by 18 percent and 41 percent, respectively. Necessary deferrals in purchasing new and replacement scientific equipment may affect the Agency's ability to keep its scientific capabilities current with the most recent technological developments.

Extramural contracts and grants, which comprise only three percent of the Agency's budget, will be reduced by 36 percent, requiring a reduction in support of State contracts to supplement FDA inspections and the elimination of certain research contracts and grants. However, as directed by Congress, grants for Orphan Products Development will not be reduced more than 4.3 percent, meaning that other research efforts providing FDA with outside expertise will absorb greater reductions or be curtailed.

In the area of personnel expenses, FDA imposed hiring restrictions beginning also in January. Exceptions are being made, however, to provide relief to a few critical program activities, such as AIDS prevention and treatment research, new drug and medical device evaluations, and implementation of the recent generic drug legislation.

At this time the Agency does not see a need to RIF or furlough any employees in 1986 as a result of Gramm-Rudman-Hollings. As shown in the justification of our 1987 budget request, the spending authority requested, including both appropriations and collections from user charges, will allow FDA to restore its operations to the level established for 1986 before the sequestration of funds occurred, and will further allow FDA to make significant further improvements in the new drug review process.

Appropriation Bill Language

QUESTION: You are also proposing new appropriation bill language that states, "That such amounts as the Secretary deems necessary may be transferred to `Priority Disease Control and Research Projects.'" Will you please explain this provision. Why can't you request a specific amount for this activity? Where will these funds be transferred from?

ANSWER: The Priority Disease Control and Research Projects account is a new account that has been proposed in the 1987 budget, within the appropriations under the Office of the Assistant Secretary for Health. The resources of other PHS agencies related to AIDS have been proposed for inclusion in this special account to provide for greater coordination of AIDS activities within the Public Health Service and to provide the capability to respond to changing needs for dealing with this disease.

However, the resources FDA needs for work on AIDS are included in the Agency's own budget request which is under the jurisdiction of the Agriculture Appropriations Subcommittees. FDA plans to spend about $10 million a year for its various responsibilities related to AIDS from both its 1986 and 1987 appropriations.

The language proposed for FDA's appropriations bill is intended to create a better mechanism for coordinating funds available to the various agencies in the Public Health Service for dealing with the disease AIDS. The language would enable FDA to be included in the consolidated PHS AIDS plan. Considering the rapid changes in knowledge about AIDS, greater flexibility in allocating funds would enable HHS to direct resources quickly and responsibly to the most important emerging opportunities for research and control of AIDS. Thus, this language would allow some of FDA's funds to be transferred into this central account if needed.

QUESTION: You are also requesting new bill language regarding the use of funds for one-year contracts. Will you please explain this provision and why it is needed. Is this different from the manner in which you handled contract work before?

ANSWER: This bill language is similar to bill language proposed in 1986. Its application will be for regularly recurring maintenance and support service contracts, many of which come up for renewal at the end of the fiscal year, because of the "bona fide need" rule prohibiting use of current funds for certain services extending into the next fiscal year. Similar language was included as a General Provision in the final version of the Agriculture Appropriations Act effective for 1986. We expect to use the flexibility this provision affords on a number of such actions later this year. As a result, it should be possible to redistribute some traditionally end-of-year workload, thus avoiding some overtime in future years. Since contractor marketing activity tends to mirror customer purchasing activity, similar benefits should also accrue to the private sector in future years. By using this approach, we will also avoid lapses of essential support services when appropriations expire and new appropriations have not yet been enacted.

New Laboratory

QUESTION: I understand you are now occupying a new laboratory facility at Beltsville for which funds were appropriated in the fiscal year 1981 bill. I also know that you are planning additional buildings there. What is the status of your construction program (Module #2 - space for veterinary research)?

ANSWER: The design for Module #2 was completed in April, 1986. No construction funds for this facility have been appropriated at this time.

QUESTION: In your statement you said that the animal testing and related laboratory facilities from Building 8 were moving into the new Beltsville facility.

Initially, wasn't the objective to consolidate all of the Agency's food programs and personnel in this new facility? I now gather that that is not likely to be the case and that some of the Agency's personnel working in the food area will be located in Beltsville, but others will be located in downtown Washington, approximately 25 miles away. Will this impair the ability of the Center for Food Safety and Applied Nutrition to perform its responsibilities promptly and efficiently?

ANSWER: Module I of the Beltsville facility was always intended to house only animal research and testing activities of the Center. Other modules of the planned FDA Beltsville Complex are planned to consolidate the major portions of our Headquarters activities in a single location. For instance, the Module II building, which has already been designed, would provide space for the Veterinary Medicine laboratories and animal research facilities currently housed at USDA's Beltsville Agriculture Research Center (BARC). This facility is intended primarily for research activities involving larger animals. Other modules will provide space for all other foods personnel including research and analytical activities which do not involve animals, and space for the support staffs.

The relocation of CFSAN's animal research will offer opportunities for significant improvements in the quantity and quality of food safety research, and enhance cooperative research efforts between the Centers for Food Safety and Applied Nutrition, and Veterinary Medicine. In fact, CFSAN already has a small research staff at an older facility on FDA's Beltsville property, so while there may be some logistical problems in having Center staff divided among locations, this is already a problem, and these concerns are far outweighed by our need for new up-to-date laboratories. Thus, the net result of the move will be a great improvement in our ability to assure the safety of the nation's food supply. Efficiency of the Foods activities will be further enhanced in later modules when all Foods employees are relocated.

QUESTION: How much of your 1986 appropriation is being used to occupy this laboratory (Module I)?

ANSWER: We reported last year needing $2,725,000 for costs for occupying Module I, but as a result of Gramm-Rudman reductions we have only $2,608,000. We expect to use all of these funds for the move and to operate the facility. Although the move has been postponed by a few months, we still require the full $1,660,000 in one-time costs for the purchase of equipment which cannot be relocated and for the cost of moving. Whereas the FY86 operating costs estimated at $710,000 will be reduced by $355,000 as a result of shorter anticipated occupancy time for 1986, this amount will be more than offset by increases in laboratory support contracts and by absorbing the $177,000 in Gramm-Rudman cuts.

QUESTION: Is there any offset against your SLUC (Standard Level User Charges) bill for 1986?

ANSWER: There will be no savings in SLUC costs as a result of the move from FB-8 to Module #1 in fiscal year 1986. The General Services Administration requires that FDA renovate the vacated laboratory space into usable office space prior to turning it back to GSA. Since the move comes late in the fiscal year and the renovation that is necessary would take at least a year to accomplish, we are not anticipating any savings in SLUC until at least 1988.

New Drug Approval Program

QUESTION: You are requesting a funding increase of $14 million for the New Drug Approval (NDA) program, but this increase is to be derived from user charges. If the proposed legislation for these charges is not approved, what impact will that have on the improvement of the NDA process?

ANSWER: If we cannot collect the fees, and depending on our final 1987 appropriations, we will have to scale down or eliminate efforts to improve the NDA process other than those required by the recent "NDA rewrite" rule. If our final 1987 appropriation is $423.6 million and user charges do not come about, we will have to make reductions in new drug review as well as in other FDA programs.

QUESTION: Will these funds be transferred from another program? If so, which one?

ANSWER: No. Other than the planned reallocation of 40 staff-years into the new drug evaluation project from within current staffing levels, the Agency does not believe it can further reallocate resources without jeopardizing its other essential programs. This is why FDA has proposed the funding increases for new drug review as shown in our justification, together with the Administration's proposal for user charges to provide the needed funding of these improvements.

QUESTION: One of the reasons the industry opposed implementation of a user-fee system last year was that the fees would go to the Treasury rather than be kept by the Agency to improve the NDA process. Have you had any indication that industry now supports user fees since these fees would supplement your appropriation?

ANSWER: The Agency has received a number of comments from industry that it is concerned with FDA's ability to conduct new product reviews and that if user charges are needed they should be devoted to improvements in FDA's review programs. Just recently, the Pharmaceutical Manufacturers Association has gone on record that it could support user charges if, among other conditions, all of the fees were to go toward improvements in the Agency's ability to review applications promptly. We believe that industry will recognize the significant improvements they would enjoy if our user fee proposal is accepted.

Agency Budget Priorities

QUESTION: Dr. Young, would you please explain how you decide each year how much of the Agency's budget will be devoted to the different parts of your Agency's responsibilities — that is, between foods, drugs, and devices and other product categories.

ANSWER: Every year the Agency goes through a formal program planning process, which is designed to identify planned accomplishments and resource needs for the following two years, with particular emphasis on the budget year, and to establish Agency priorities for these accomplishments. In discussing and setting priorities, FDA draws upon the expertise of its own managers as well as that of outside groups, such as health professionals or organizations, trade associations, consumer groups, state food and drug officials, and others. Each internal FDA component makes a presentation of its plans and proposals to the Commissioner. During these presentations, all staff managers and center directors have an opportunity to present their views. After assimilating input from the presentations and discussions and staff recommendations, the Commissioner decides what the request will be. Of course, after FDA makes its request, it is reviewed and acted on by the Assistant Secretary for Health, the Secretary, HHS, the Office of Management and Budget, and finally Congress.

QUESTION: It is my understanding that over the last seven or eight years the proportion of the Agency's budget devoted to food matters has declined relative to other parts of the Agency's budget. Is this correct? If so, would you please explain why the various activities of the Agency on the food side of things seem to have become a lesser priority than, for example, activities related to the regulation of pharmaceuticals.

ANSWER: It is true that foods activities have declined somewhat as a percentage of FDA's total resources. However, it should be pointed out that as the Agency has absorbed staffing reductions over the last seven years, we have had to reduce lower-priority activities in all components of the Agency. A good portion of the reductions have had to come from our Field activities, and we have tried to deal with this by improving our inspectional procedures and strategies to make the best possible use of our Field staffs. We do not believe that we have thus reduced our ability to protect the food supply. As shown in the Agency Action Plan, FDA's highest priorities are to sustain and improve the review of new human drugs and devices, to assure prompt review and availability of new medical products for the prevention and treatment of disease.

QUESTION: There are many significant scientific and technological changes, including biotechnology, that are affecting the production and processing of food. In addition, in recent years we have seen significant public health problems involving pesticides, microbiological contamination of milk, cheese, and other dairy products as well as episodes of product tampering. Has the science base of the Agency, particularly on the food side, been able to keep pace with these developments and challenges?

More specifically, I have been advised that no full-time permanent new scientists or other technical experts have been hired to work in the Center for Food Safety and Applied Nutrition in the last seven or eight years. Is that possible?

ANSWER: We are always seeking to improve the Agency's science base in many ways, and thus far we have kept up with technological advances in the products we regulate. We are able to do what we have to do to safeguard the public health. Of course, fiscal restraints require us to focus resources on our highest priorities, such as review of new drugs and devices. Of course, the utilization of Module I of our new laboratory facilities in late 1986 will make more advantageous use of our limited manpower and equipment.

The Center for Food Safety and Applied Nutrition has approximately 400 scientists. In 1978, the Center had roughly 470 scientists. Between 1978 and 1986, the Center has hired roughly 90 new scientists, yet attrition at the rate of about 5 percent has caused the Center to lose about 160. Thus, the Center has been able to hire new scientists even though the total number has been reduced as part of overall staffing reductions.

"Independent" Commissioner

QUESTION: Legislation has been introduced which would give the FDA an "independent" Commissioner, who would be appointed by the President. The Agency would remain part of the Department of Health and Human Services, but the Commissioner would have most authority over the Agency. Does the Administration have a position on this legislation? Would you care to comment on this proposal?

ANSWER: At a recent hearing on a similar house bill, H.R. 3909, before the House Committee on Energy and Commerce, Subcommittee on Health, the Department witness, Acting Assistant Secretary for Health, Dr. Donald MacDonald, had the following comments to make on this type of legislation: "In sum, while we recognize the significance of the mission of FDA and consequently the importance of its Commissioner, we do not believe this change in the current appointment procedure for the Commissioner is necessary. We believe that the Food and Drug Administration has an excellent record in improving its product approval system while at the same time continuing necessary enforcement activities."

Inspection Standards

QUESTION: In a recent interview published by the American Agricultural Economics Association, Secretary of Agriculture Lyng states that USDA should have a broader role in food safety. He said it is "unwise to have meat and poultry and eggs inspected by USDA and all other foods inspected by the FDA. USDA should do it all." He further suggests that inspection standards should be set by the health Agency, but USDA should enforce the standards. What is your reaction to the speculation that the time is ripe for the transfer of FDA functions to USDA, based on the difficulty FDA has had in dealing with its parent Department of Health and Human Services?

ANSWER: If one were designing a new national food inspection system, there might be advantages to having all such inspections done by the same agency. In practice, however, FDA and the Food Safety and Inspection Service operate under separate and distinct legislative authorities and face many different types of problems in assuring the safety of the food products they regulate.

Over the years, however, we have developed a very close working relationship with FSIS as well as a clear understanding of our responsibility to prevent any duplication of effort.

We enjoy extensive informal exchange daily among the scientists in FDA and USDA. There is also frequent contact in the field on problems that may impact on both agencies.

One of the most important areas of coordination results from USDA's responsibility to inspect meat, poultry, and eggs. When residues of animal drugs, or other contaminants such as industrial chemicals, are found in these products, FDA and FSIS coordinate quickly as possible in order to determine the source and scope of the problem. Because FDA is responsible for the safe use of animal drugs as well as the safety of animal feed, we seek to optimize the resources of both FDA and USDA to resolve and prevent such problems, and we have conducted joint educational campaigns in such areas as the safe use of drugs in cattle and swine before slaughter and the use of electrical machinery containing PCBs in food and feed plants.

FDA also makes extensive use of information produced by USDA, such as the Food Consumption survey, in its analysis of the overall safety of the food supply and specifically in its Total Diet Studies, which seek to analyze the overall levels of both nutrients and contaminants consumed by various parts of the population.

FDA's veterinary research facility, which is located at the Beltsville Agricultural Research Center, draws heavily on both the scientific expertise and the support facilities of USDA there. Since FDA's new veterinary research facility, known as Module #2, of our headquarters lab complex will eventually be built on FDA property not far from USDA's research center, we are confident a high level of cooperation will continue in the future.

Furthermore, FDA has not had difficulty in dealing with the Department of Health and Human Services. Inspectional activities are directed by FDA without Departmental review.

To move the inspection activity alone to another Department could be a hindrance to taking prompt regulatory action in cases where expert scientific analysis must be coordinated with inspectional and legal functions to produce the desired result, namely, public health and a safe food supply. Therefore, we see no reason to transfer FDA's food inspection function to USDA.

Both agencies have traditionally done an excellent job of protecting the public, and while the idea of consolidating some responsibilities may merit further study, there are no proposals at this time to transfer any functions between these agencies.

Milk Contamination

Question. To what extent, if any, has FDA been involved in the recent problems encountered by the States of Arkansas, Missouri, and Oklahoma in connection with the contamination of milk products by the pesticide heptachlor?

Answer. FDA's primary role, after finding heptachlor-contaminated dairy products on Oklahoma, Arkansas, and Missouri, has been to stop the contaminated dairy and meat products from reaching consumers, consistent with FDA's authority under the Federal Food, Drug and Cosmetic Act (FD&C Act). We became aware of this recent problem after sampling corn shipped to J.E.W., Inc./Valley Feeds, Inc., Van Buren, Arkansas, for use in their gasohol and animal feed operations. The corn contained high aflatoxin levels. FDA collected additional samples of grain and of spent distillers mash, a by-product of the firm's gasohol production. Analyses of these samples, and samples of milk from dairies which had purchased spent distillers mash for animal feed, revealed violative levels of heptachlor. On February 26, FDA began sampling all milk produced within a 150-mile radius of Valley Feeds, Inc., because Valley Feed's distribution records were inadequate to determine the purchasers of its animal feed. On March 12, 1986, J.E.W., Inc. and Valley Feeds, Inc. were enjoined from selling contaminated spent mash as animal feed.

Our investigation is continuing in cooperation with appropriate state authorities. Over 1200 samples of milk and dairy products have been analyzed by FDA laboratories, 104 or nine percent, of which were found to contain violative residues of heptachlor epoxide at or above 0.1 ppm. Nine firms have initiated recalls of their milk and other dairy products. State authorities have quarantined 56 dairy farms in the three states involved.

In view of the practices of utilizing seed grain to produce alcohol at J.E.W., Inc., we have extended our investigation to other known gasohol manufacturing plants; all have been found non-violative. FDA district offices are investigating known seed brokers/dealers to determine disposition of surplus pesticide-treated grain.

Drugs For Minor Species

QUESTION: What progress have you made in the past year in regard to drugs for minor species?

ANSWER: FDA's Minor Use Animal Drug Development program is intended to encourage the development of research projects in the area of minor use animal drugs and have a positive impact on minor use/minor species drug development efforts. Through this program two drugs have been approved during the past year for use in minor species: Ivermectin to treat warbles in reindeer, and Amprolium for coccidiosis in pheasants. Also, Public Master Files were published during the past year on Oxytetracycline for use against gaffkemia in lobsters and on Sulfadimethoxine and Oemetropin for use against enteric septicemia in catfish.

Also as a part of this program, FDA sponsored a symposium on minor use animal drug research in September 1985. The symposium was co-sponsored by the Consortium for Research on Minor Use Animal Drugs. The purpose of the conference was to present and discuss comparative pharmacologic/toxicologic research involving the metabolism, pharmacokinetics, and physiologic effects of drugs and chemicals in minor food animal species.

FDA also funded the third InterRegional-4/Food and Drug Administration Workshop for Minor Use of New Animal Drugs, held in September 1985. The overall mission for the third Workshop was to: 1) define prevalent diseases and drug needs for minor species and minor uses; 2) set priorities for drugs that should be developed for prevalent diseases; 3) develop research protocols, if necessary; and 4) report on the combined efforts of FDA's Center for Veterinary Medicine and the IR-4 Project in the development and approval of new animal drugs for minor species.

QUESTION: To what extent does FDA participate in the work being done in this area at Rutgers University?

ANSWER: FDA has assigned a full-time veterinarian, Dr. Emilio Viera, to Rutgers University headquarters. Dr. Viera assists in the development of FDA's approval process for drugs to be used against diseases of minor species of animals.

FDA has funded a contract with InterRegional Research Program Number 4 (IR-4) to establish expertise in the environmental sciences within the IR-4 program. In 1984 and 1985, Dr. Stanley Katz of Rutgers prioritized candidate minor use drugs and prepared environmental assessments of their use in various minor species. Each environmental assessment helps assure that an individual minor use drug will not adversely affect the quality of the human environment, as required by the National Environmental Policy Act. By including environmental assessments in IR-4 Drug Master Files, the cost to potential drug sponsors for minor use applications is further reduced without endangering the environment. The effort has been successful to date and it is our understanding that the IR-4 program will continue to maintain Dr. Katz's project.

Health Fraud Branch

QUESTION: How much of FDA's budget is designated to efforts against "quack" drugs that endanger or dupe consumers? Is this sufficient?

ANSWER: For 1986 and 1987, FDA plans to devote about $1,900,000 and 39 staffyears to the Health Fraud project. These resources are believed to be sufficient at this time.

Both planned headquarters and Field resources for compliance are primarily devoted the higher priority of fraudulent products which endanger consumers. Very few investigational and compliance resources are employed against fraudulent products that simply cheat consumers without significant risk to health. These products are purely economic frauds.

FDA's strategy against economic frauds is chiefly to educate consumers to the irrational basis for claims made for such products. Clearly, FDA might attempt legal action against major economic frauds, however with present levels of Field and headquarters compliance personnel, priority must be given to programs designed to minimize health risks in products regulated by the Agency.

To summarize, we believe we have adequate resources for our higher priority to protect against hazardous products that endanger consumers, but limited resources for our lower priority to develop and pursue legal cases against economic frauds. We rely on educational efforts to convince the public not to waste money on such products.

In the past, FDA's policy in the area of health fraud has been aimed chiefly at detecting and removing from the market fraudulent products which present consumers with direct and serious indirect health hazards. In FY 1985, the commitment to increase Agency activity to combat health fraud became one of the ten goals of the Action Plan.

This commitment has taken several forms. Resources have been devoted to field operations generated by various regulatory initiatives, such as "chelation therapy" and "cytotoxic testing". The "Tipped Off or Ripped Off" pilot program has been initiated to combat device fraud by combining enforcement actions with information initiatives and publicly identifying fraudulent, deceptive or mislabeled non-prescription devices when firms fail to come into compliance after adequate warnings. FDA has sponsored, either alone or in conjunction with other Federal, state, and local government agencies, institutions and consumer groups, national, regional and local conferences and education programs dealing with health fraud.

During FY 1985, FDA forwarded 10 medical fraud cases to the Department of Justice for filing. The cases consisted of nine seizures and one prosecution. These actions included one prosecution and four seizures of drug products, four seizures of human foods and one seizure of medical devices. In January of this year, formal guidance was issued which outlines responsibilities of various FDA units and establishes priorities for investigating potentially fraudulent products.

Fraud Bulletins issued in the past twelve months have requested field investigations of products containing the steroidal hormone, dihydroepiandrosteron (DHEA), offered for weight reduction; over-the-counter vitamin-mineral combination oral chelation products promoted for treatment and prevention of occlusive vascular disease and related disease conditions; and products containing nonoxynol-9 claiming to prevent or treat AIDS.

On February 21, 1986, at the request of FDA, the United States District Court for the District of Oregon enjoined KC Laboratories and Manna International Company, et al, from further manufacturing and distributing products containing blue-green algae and sold under the trade name, "Manna". Products were promoted for the prevention, treatment, and cure of a variety of diseases including Alzheimer's Disease, heart trouble, skin disturbances, allergies, prostate problems, lack of sex drive, emotional problems and alcoholism. The Court ordered the defendants to immediately recall all blue-green algae products from the more than 2500 distributors involved in marketing the products.

FDA will continue to investigate and initiate formal regulatory sanctions as necessary against those firms marketing fraudulent products. There are a number of such cases currently in various stages of development. In addition to these regulatory actions, we have initiated a strong nation-wide educational effort to inform and alert potential consumers of the serious hazards these products present.

QUESTION: Does FDA have sufficient legal authority to wield against health fraud? Some argue that FDA has a strong legal mandate, but has done very little to control "quack" products. What is your reaction and response to that charge?

ANSWER: The regulation of products labeled and promoted with fraudulent therapeutic claims is one of the most difficult tasks we face, and the need for budget constraint requires us to prioritize the expenditure of our resources. Products which present a direct health hazard (clear and immediate danger) have been promptly and effectively dealt with using already available civil, criminal and administrative sanctions and procedures. It is in the areas involving indirect health hazards and major economic deceptions that opinions differ as to the effectiveness of the Agency's use of its legal authorities and resources. All of FDA's regulated activities compete with each other for resources resulting in considerable difficulty in balancing allocation of resources among the many priorities which require attention. We have found that dealing with products labeled and promoted with fraudulent claims is an extremely resource-intensive undertaking but a lesser priority. For this reason, procedures have been developed which do not require resorting to formal legal action but yet do achieve correction. Thus, the Agency does make effective use of its present legal authority and is not pursuing additional legal authorities in this area.

Product Approval

QUESTION: There have been dramatic increases in the numbers of pre-market approval applications, supplements, and investigational device exemptions. The length of time it takes to process these applications for approval is getting longer and longer. How many people would FDA's Center for Devices and Radiological Health need to be able to cope with the back-log and the increasing number of applications for devices to reduce these delays?

ANSWER: Device product approval workloads have increased dramatically since 1980. The workload for Premarket Applications (PMAs) has increased by 57 percent, PMA supplements by 138 percent, and investigation device exemptions by 190 percent. Yet, FDA has made significant progress in handling this additional workload. The Agency has been able to redirect its efforts within the Center for Devices and Radiological Health to devote more staff to new device review. Also, improving the device review process is a major goal of the Agency's Action Plan, and we are pursuing a number of strategies to streamline the process. Hence, we have worked with the General Counsel's office to identify areas in which current law allows the process to be streamlined. We also are looking into some possible reforms requiring legislation that would further simplify the regulatory processes and allow some resources to be deployed more effectively. However, with the continued and increasing workload demand, FDA currently estimates that roughly 60 additional staffyears would be needed to reduce the existing backlog and process applications within existing statutory timeframes. However, we are not requesting additional resources for this program in FDA's budget request for 1987.

Dietary Supplements

QUESTION: What have you found in your study of the health effects of the consumption of high levels of dietary supplements? Is this an on-going study?

ANSWER: The study of nutrient toxicity, from high levels either in dietary supplements or in regular foods, is an ongoing program in FDA's Center for Food Safety and Applied Nutrition. Currently, rat studies of high vitamin A intake have demonstrated that liver fat-storing cells are the primary storage site for excess amounts of this vitamin. The clinical significance of this storage pattern remains to be evaluated, and further animal studies will also be performed. FDA has cooperated with the National Toxicology Program (NTP) in a rat study of the effects of high intakes of vitamin E. One of FDA's interests was what effect high intakes of this nutrient might have on vitamin A storage in the liver. The study revealed that effects were dependent on the sex and the strain of the experimental animal. The relevance to humans will be further explored. FDA is currently performing studies to identify sensitive, early indicators of selenium toxicity. These studies are especially relevant in light of the dietary supplement toxicity problems encountered in New York about two years ago and the continuing environmental problem with selenium in California. FDA has been deeply involved in cooperating with State Agencies and other Federal Agencies in the study of these two situations. FDA showed that the dietary supplement contained selenium at levels many-fold above that claimed. On the other hand, FDA analysis of blood samples from persons living near the Kesterson Reservoir in California revealed that blood selenium levels were only slightly elevated, but still within the normal range, when compared with control blood levels in persons living in a nearby community. This appears to indicate, at least for now, a lower human toxicity potential than that anticipated from the selenium toxicity effects observed in waterfowl in the area.

Orphan Drugs

QUESTION: Is there any Federally-funded orphan products research other than that done by FDA?

ANSWER: Yes. Within the Public Health Service the National Institutes of Health, the Center for Disease Control, and Alcohol, Drug Abuse and Mental Health Administration support orphan product research of over 90 million annually of which a substantial portion is for various kinds of rare cancers. Also, the Veterans Administration and the Defense Department conduct some orphan product research as part of their overall medical research.

QUESTION: How much will FDA spend on orphan product activities in FY 1987? How will the funds and time be divided among those activities (e.g., between devices and drugs or between research, grants, and approvals)?

ANSWER: For 1987, FDA expects to spend $4,750,000 for its orphan product development activities. Of this total, the Agency expects to award $3 million in grants, with the remainder being the cost of internal FDA activities to promote the development of orphan products. FDA's internal activities include overall coordination of the program, management of the grants program, scientific activities to identify and promote research on possible orphan products, and review and approval activities pertaining to products under development. While most of the research on such products is conducted by other Federal agencies and by outside institutions, a small portion of FDA's internal activities are devoted to specific research and other laboratory activities to support the development of specific products.

The Agency does not budget specifically under this program by the type of product involved--rather, the program is designed to promote product development regardless of whether the most promising products are drugs, biological products, medical devices, or foods for special medical devices, or foods for special medical uses. However, the great majority of the effect in this program will probably continue to be related, as it has in the past, to drug and biological products.

QUESTION: How much of the requested amount will be necessary for continuation grants and how much will be for new grants? Is there any other category than new or continuation? Compare these with 1986 figures.

ANSWER: As the orphan product grants program develops, a higher proportion of its funding is needed for funding of previously awarded grants. In 1985 roughly one-third of the total funding was devoted to renewals. In 1986 and 1987 about two-thirds of the estimated funding will be needed to continue prior grants. There are only two categories of awarded grants, i.e., new and continuing. The following table reflects the distribution of orphan product grants as to new grants and continuations:

	1985		1986 Est.		1987 Est.	
	#	$MIL	#	$MIL	#	$MIL
New Grant Awards	19	1.6	13	1.1	10	1.0
Continuation Funding of Prior Grants	13	.8	21	1.7	27	2.0
	32	2.4	34	2.8	37	3.0

QUESTION: What is the average grant amount?

ANSWER: The average annual funding of these grants has been about $80,000.

QUESTIONS SUBMITTED BY SENATOR KASTEN

Bovine Growth Hormone

QUESTION: Mr. Young, a number of concerns have been expressed about the safety of milk produced by cows treated with Bovine Growth Hormone (BGH). Could you comment on this? In particular, in your opinion, is there any potential health risk posed by milk produced by BGH-treated cows at the Dairy Forage Center experimental farm at Prairie du Sac, Wisconsin and sold to the public via the National Farmers Organization?

ANSWER: Based on the information currently available to FDA, we believe there is no human health risk from consumption of milk produced by cows treated with Bovine Growth Hormone (BGH) at the Dairy Forage Center at Prairie du Sac, Wisconsin. This assessment is based on the fact that BGH is not active when taken orally. Even if it were orally active, BGH is not expected to be active in humans since growth hormones are species-specific. BGH is not expected to raise the level of natural human growth hormone.

QUESTION: As you know, research on BGH and other new dairy technolo-gies is being conducted at a number of universities around the country, mostly in the major dairy states. In which of these universities is the research most advanced? Is there a possibility that farmers near the universities doing the most research on new dairy technologies might have an advantage when they become commercially available?

ANSWER: Research with BGH is a relatively new area. No drug sponsor has an approval at this time. The research at the universities is generally supported by drug sponsors, and it is not appropriate for the Agency to discuss which sponsor is closest to obtaining an approval to market BGH.

There is no advantage to being a farmer who happens to be located near a university. Drug companies tend to make their drugs available to as many users as possible as rapidly as practical.

QUESTION: I understand that BGH is expected to become commercially available around 1988, following FDA certification of its safety. Will FDA periodically monitor BGH following its clearance for commercial sale to ensure its use does not have long-term health consequences?

ANSWER: We cannot predict when BGH may be approved. If it is approved it will be monitored. The Federal Food, Drug, and Cosmetic Act (section 512(l)(1)) provides for periodic monitoring of any New Animal Drug Application (NADA) that is approved. An FDA regulation (21 CFR 510.300) requires that applicants and/or distributors of approved products establish and maintain records, and make reports, of any change in labeling, withdrawal times, or drug composition, or other significant changes. These Drug Experience Reports (DER's) are submitted to CVM's Division of Surveillance at intervals of six months for the first year following approval and annually thereafter. The drug's sponsor is required to immediately report unexpected side effects or adverse reactions such as injury, toxicity, sensitivity reaction, or failure of a new animal drug to exhibit expected pharmacological action.

Data is also obtained from other sources. Adverse reactions are often reported directly to FDA by the user. Forms for reporting adverse drug reactions (franked postcards entitled, "Veterinary Alert to Adverse Reaction") are available to all. This reporting system was developed to encourage the veterinarian and others to report adverse reactions to drugs they use.

After analyzing the data, FDA can take appropriate actions such as: requiring label changes which clarify directions for use; adding warning statements; changing dosages; or taking regulatory action including withdrawal of the approval.

QUESTIONS SUBMITTED BY SENATOR SPECTER

User Fees

QUESTION: The Administration has again proposed a system of user fees to fund programs for the FDA. Is there any more justification to implement such charges in FY 1987 than there was in FY 1986?

ANSWER: Yes. First, the 1987 President's Budget proposes a different use of the fees to be collected, namely to sustain and improve FDA's ability to review new drug applications. Second, the Administration's proposal for these user charges is not based on existing legislative authority, as was proposed for 1986, but on a new legislative proposal. To provide for full consideration of the Congress of the specific issue of user charges for new drug review, a separate legislative proposal to provide such authority is being prepared. We expect that this proposal will be submitted to the Congress in the very near future.

The purpose of the charges is not just to collect money from industry for the services we provide; the first $11.4 million collected will be used to maintain our current level of operations. Those funds collected after the first $11.4 million will be used to improve those drug evaluation and review services for the benefit of the public and industry. As shown in our budget justification to the Committee, we would use a portion of these funds to provide needed improvements in our drug review process, which will result in faster availability of new drug products. While industry will clearly benefit from being able to market its products sooner, the critical point is that accelerating the drug approval process through user charges will greatly enhance our ability to promote the public health by encouraging innovation and making available new treatments faster.

AIDS

QUESTION: Is the approximately $10 million that FDA has requested for AIDS research sufficient to address this extremely dangerous condition?

ANSWER: FDA's AIDS resources for 1986 reflect a significant increase over the 1985 level and will permit us to sustain our commitment to the AIDS program and to keep up with developments by the other agencies involved and with research outside the government. At this time we believe our estimate for 1987, which is also about $10 million, will be sufficient to continue this effort and enable FDA to play its unique role as part of the overall Public Health Service program to combat this problem. Of course, the entire area of AIDS research is very dynamic, and it is possible that events not foreseen at this time could require us to revise our estimates.

Our most immediate priorities in fighting this dreaded disease continue to be research to assure protection of the blood supply; involvement in development of vaccines for prevention of, and therapeutics for treatment of, the diseases; and rapid response to investigational protocols and marketing applications for products which may have promise. Also, we have provided an exception to our current hiring restraints to be able to hire the staff needed to support AIDS work.

Product Tampering

QUESTION: Has the recent Tylenol tampering case brought about any new procedures within FDA in dealing with similar cases in the future? Are such cases any more unlikely in the future?

ANSWER: Because of our experience over the years in dealing with such matters, the Agency emergency procedures and the cooperative procedures with the FBI, USDA and State officials for tamperings were already in place and were followed. Accordingly, we have not needed to develop any new procedures as a result of the Tylenol tampering case.

It is impossible to predict what cases may occur in the future. While efforts continue to produce better tamper-resistant packaging, as long as consumers have access to retail products, persons with intent to tamper will be able to do so.

QUESTIONS SUBMITTED BY SENATOR BURDICK

Sulfites in Foods

QUESTION: Last year, Congress required FDA to complete its safety evaluation of sulfites by June 1, 1986. Are you going to meet that dead-line?

ANSWER: In terms of the safety evaluation of sulfites, FDA has completed its technical review of the extensive information available concerning the use of sulfiting agents in foods. We have drafted or are drafting Federal Register documents regarding whether the uses of sulfites on (1) fresh fruits and fresh vegetables, (2) potatoes, and (3) all other food uses are generally recognized as safe (GRAS). We have also drafted a Federal Register document concerning the label declaration of the presence of sulfites in foods. These documents are now in various stages of review. However, it will be a difficult, if not impossible, task for us to complete each of the steps in the rule-making process by June 1, 1986, because of the complex issues involved, and because of the many concerns raised by consumers.

QUESTION: Your proposed rule on banning sulfites on fresh fruits and vegetables has been out for quite some time. Why is it taking so long to issue a final rule and when can we expect it?

ANSWER: Publication of a final rule has been slowed by the Agency's obligation to consider the many complex and complicated issues presented in its evaluation of the safety of the use of sulfites on fresh fruits and vegetables. FDA has tried to ensure that its decision on this matter was based on all of the information available. FDA's work on a final rule regarding the use of sulfites on fresh fruits and vegetables is now quite advanced, and we hope to publish a document in the very near future.

QUESTION: This committee also asked you to report on the use of sulfites in other than fresh fruits and vegetables. Do we have deaths from sulfites on other than fresh fruits and vegetables? Are you considering other bans?

ANSWER: FDA has reviewed seventeen case reports of deaths allegedly associated with sulfites. FDA's epidemiology staff has concluded that in ten of these cases it is either possible or highly possible that the use of sulfites in foods was associated with the adverse response leading to death. Foods that either contained sulfites or purportedly contained sulfites that were ingested by individuals that suffered these adverse reactions include raw fruits, raw vegetables, potatoes, wine, beer, lemon juice, and shrimp.

In regard to the use of sulfites on potatoes and all other foods, FDA is reviewing and evaluating all options, including a prohibition or partial prohibition of the use of these ingredients on potatoes as well as possible limitations on their use in other types of foods.

Sulfites in Drugs

QUESTION: I understand that sulfites are also used in hundreds of prescription and non-prescription drugs, and that these drugs are sometimes used to treat reactions to sulfited foods. What are you doing about this problem? Your proposed rule covers prescription drugs only while you rely on voluntary labeling for non-prescription drugs. Didn't you find voluntary labeling to be ineffective as far as aspirin and Reye's Syndrome are concerned?

ANSWER: As our proposed rule states, we are proposing to require that a warning statement be included in the labeling of prescription drugs for human use containing sulfites. We anticipate that the warning statement could aid physicians by providing them information necessary to avoid prescribing sulfite-containing drugs to persons known to be sensitive to sulfites.

We did not find voluntary labeling to be ineffective as far as aspirin and Reye syndrome was concerned. As was stated in the preamble to the proposal to require certain labeling for aspirin containing products, the Secretary believes that the voluntary program has made real and substantial progress and has done much more in a relatively brief period of time to inform and caution the general public about Reye syndrome and the possible association of the disease with aspirin use than the most ambitious mandatory program alone could have done in the same timeframe. However the diversity of the voluntary label messages used was somewhat confusing. The Secretary concluded that it was in the best interest of the consumer, industry, and the marketplace to have uniformity in presentation and clarity of message. That is the reason that the label statement was mandated by regulation.

In the case of sulfites in non-prescription drugs, the issue is the voluntary declaration of inactive ingredients such as sulfites. Both the Pharmaceutical Manufacturers Association (PMA) and the Proprietary Association (PA) have assured us that nearly all drug products produced by their member firms after December 1985 would declare the presence of inactive ingredients including sulfites. Because we are dealing only with the voluntary declaration of inactive ingredients rather than a complex message like the aspirin and Reye statement, we will not have the problem of a diversity of label messages. We are confident that the PMA and the PA member firms will support this voluntary effort. For these reasons we expect the voluntary labeling approach will work for the declaration of the presence of sulfites in prescription and over-the-counter products.

Fast Food Labeling

QUESTION: FDA acknowledged in 1979 that the mandatory ingredient disclosure provision of the Food, Drug, and Cosmetic Act extends to so-called fast food sold in wrappers or containers. Nevertheless, it has not been enforced. I understand that three organizations petitioned FDA last June for enforcement of that provision for fast foods. What is the status of that petition?

ANSWER: The Agency is in the final stages of evaluating the petition and of developing an appropriate response. We expect to reach a decision on this matter in the near future.

QUESTION: How are consumers who must avoid certain foods or additives supposed to make safe decisions about foods, such as fast foods, that are not labeled?

ANSWER: Consumers may have to avoid unlabeled food in order to avoid particular substances. A consumer can request information from the management of a food service establishment concerning ingredients in the foods that the establishment serves. If the management does not supply the information, the consumer can simply not eat the food in question, or he/she can go elsewhere for his/her food. Even the most resistant management would be unlikely to watch many customers turn away before changing its policy and providing the information that consumers want.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

Contact Lens Regulation

QUESTION: Commissioner Young, as you know, I am ranking minority member on the Small Business Committee. One of my greatest concerns over the past few years has been unproductive and anticompetitive regulations affecting the small business community.

It has been brought to my attention that the FDA is still regulating daily wear contact lenses as class III devices, even though the Agency's own expert panel, the American Optometric Association, and the American Academy of Ophthalmology have all recommended that they be reclassified. I also understand that such regulation has been highly damaging to the small and medium contact lens manufacturers; in fact, this has been discussed in two reports by the Office of Technology Assessment (OTA).

I also understand that most of the premarket approval applications (PMA's) received for medical devices are for contact lens products. In a speech last year, you called attention to that fact and suggested that legislation would be needed to change the situation. You indicated that you were not happy with the present situation in which such products as contact lenses and lens solutions required premarket review and approval. It therefore appears that the Agency's limited resources might be better directed to other pressing needs. Do thee lenses meet the statutory definition of a class III device?

ANSWER: All contact lenses not composed entirely of polymethylmethacrylate (PMMA) are defined by section 520(l)(1)(E) of the Federal Food, Drug, and Cosmetic Act -- the "transitional provisions of the Medical Device Amendments of 1976 -- as class III devices because FDA declared, by a notice published in the Federal Register before passage of that law, all such lenses to be new drugs, i.e., they were required to have approved new drug applications (NDAs) before they could be marketed. See Contact Lens Manufacturers Association v. FDA, 766 F.2d 592 (D.C. Cir. 1985). Under the "transitional provisions," section 520(l), all products previously regulated as new drugs but now regulated as devices are automatically in class III and require premarket approval, unless they are reclassified.

In 1982, FDA proposed to reclassify daily wear soft and rigid gas permeable contact lenses from class III into class I. After reviewing all publicly available information about such contact lenses, the Agency concluded that it could not reclassify the devices because premarket approval was necessary to assure their safety and effectiveness. The Agency's decision was based on its conclusions that the publicly available information was insufficient 1) to establish the safety and effectiveness of the contact lenses proposed for reclassification, 2) to characterize this device adequately for the purpose of reclassification, and 3) to demonstrate that class I or class II would provide reasonable assurance of the safety and effectiveness of soft contact lenses or rigid gas permeable contact lenses. FDA concluded that clinical trials are necessary to establish the safety and effectiveness of new contact lenses. See 48 F.R. 56778 (December 23, 1983); 49 F.R. 17523 (April 24, 1984). FDA's decision not to reclassify rigid gas permeable contact lenses was upheld by the D.C. Circuit in Contact Lens Manufacturers Association v. FDA, supra.

QUESTION: How much does it cost to regulate daily wear contact lenses as class III devices? How many staff reviewers are involved in this activity? How many man-years are required?

ANSWER: Since class III devices must undergo premarket approval while other devices typically are marketed under the less resource-intensive premarket notification procedures, in order to estimate the incremental cost to FDA of regulating daily wear contact lenses as class III devices rather than as class I or class II devices it is necessary to focus on the volume of premarket approval applications (PMAs) that FDA receives for daily wear contact lenses and the cost differences that would result from processing premarket notifications instead.

During FY 1985, FDA's Center for Devices and Radiological Health (CDRH) received 33 PMAs and 151 PMA supplements for soft (hydrophilic) and rigid gas permeable contact lenses and their associated solutions and accessories. These submissions constituted

34 percent of the PMAs and 38 percent of the PMA supplements received by CDRH in FY 1985. Approximately one-fourth of these submissions, however, involved extended wear lenses. Moreover, PMA reviews for daily wear contact lenses are typically less resource-intensive than PMA reviews for other class III devices such as cardiac pacemakers and new orthopedic implants. Thus, CDRH estimates that approximately 20 percent of its incoming premarket approval workload in FY 1985 was for daily wear soft and rigid gas permeable contact lenses and their associated solutions and accessories. This percentage of workload represents approximately 17 staffyears of effort per year within CDRH. This workload translates into an estimated cost of $765,000 for FDA.

The events that require submission of a PMA or PMA supplement are not identical to those requiring submission of a premarket notification. Thus, we do not know precisely how many premarket notifications would result each year if daily wear soft and rigid gas permeable contact lenses and associated products were reclassified. In addition, it is not known at this time how complex or detailed premarket notifications for soft and rigid gas permeable contact lenses might be. Nonetheless, we will assume that combining the submission rates for PMAs and PMA supplements provides a reasonable estimate of the potential premarket notification submission rate for daily wear soft and rigid gas permeable contact lenses and associated products. We will also assume that review of these premarket notifications would be several times more time-consuming than review of the average premarket notification. As a result, we estimate that roughly five staffyears of effort per year would be necessary within CDRH to review premarket notifications in place of PMA submissions for these products.

Based on the above estimates, we believe that the incremental cost to FDA (in terms of personnel needs) of regulating daily wear soft and rigid gas permeable contact lenses and their associated solutions and accessories as class III devices, rather than as class I or class II devices, is approximately 12 staffyears of effort per year. This represents, in dollars, an estimated incremental cost of $540,000 per year. It should be noted, however, that this rough estimate does not consider the cost of developing and enforcing a performance standard, which may be necessary if daily wear soft and rigid gas permeable contact lenses were to be reclassified into class II. It also does not consider any costs associated with carrying out reclassification. Further, it does not consider potential costs of the alternative regulatory schemes and benefits to contact lens manufacturers and wearers.

QUESTION: Are you keeping up with the statutory time limit in processing these PMAs?

ANSWER: No. The average review time has exceeded the statutory review time by a significant amount. However, the average time has been reduced considerably during FY85 and to some extent in FY86. In FY 1985, we approved 15 such PMAs in an average of 361 days, of which four were approved within the statutory deadline of 180 days. For the first six months of FY 1986, we have approved 12 such PMAs in an average of 286 days, of which six were approved within 180 days.

The shortened average review time for PMAs, while still over the statutory time, shows improvement, particularly given the increasing number of PMA and PMA supplements received at the Center.

QUESTION: Are you satisfied that this is the best use that could be made of this money?

ANSWER: Much of the review time spent for PMA review in the contact lens area for daily wear is somewhat repetitive given the similarities in the materials.

These efforts would be better spent in review of daily contact lenses by premarket notifications provided that FDA would continue to be able to call for, and evaluate, safety data for reasonable scientific assurance of non-toxicity, effectiveness, adequate chemistry considerations, and disinfection capability. The possibility of reducing clinical requirements is being reviewed within CDRH.

QUESTION: Are there no other pressing problems to which these resources might be better committed?

ANSWER: There are other areas, e.g., review of pre-amendments PMAs, development of medical device performance standards, improved post-market surveillance and educational efforts, new initiatives in the areas of microelectronics, materials science, and toxicology, and improving product review timeframes. These areas are, however, of lower priority than sustaining our review of new product applications as required under current regulations.

Productivity Review at NCTR

QUESTION: Since the productivity review at the National Center for Toxicological Research actually began in February 1985, what has been the total cost of this process to our government to perform the study, grant approval to the government workers, change the computation rules, require a new review, change the decision and follow their appeal?

ANSWER: Although there have been a number of delays in this process the Agency carries out the requirements of OMB Circular A-76 in conducting this productivity review, the majority of the cost was in the initial analysis of the detailed scope of the maintenance functions at NCTR and the precise costs involved. The subsequent decision steps and changes in the computation rules have affected the end result, but they were based on the analytical work done during the initial studies. It is difficult to compute precise costs because a number of FDA staff, both at NCTR and at headquarters, have been involved to varying degrees for differing intervals of time. Overall, however, the Agency estimates the total costs, in terms of the value of the regular staff time devoted to this issue, to be between $150,000 and $200,000.

QUESTION: When do you anticipate a final decision on the employees' appeal?

ANSWER: The decision on the appeal filed on the employees' behalf was made on May 8, 1986. The appeal was not granted, and the Agency has proceeded to award the contract to the successful commercial bidder.

QUESTION: Because of the many delays experienced during the course of this review, the outcome is still unresolved after almost 15 months. Don't you agree that the goals of efficiency and cost-effectiveness could have been better realized by simply allowing the government workers to continue performing their work?

ANSWER: Not necessarily. First, the employees have been continuing to perform their normal duties while the process has been going on. Also, although that was not our intention, the additional time required to complete the process should have allowed the employees more than to consider their personal options. It should be noted that the affected employees have the right of first refusal for jobs with the contractor. Also, a number of the employees will be eligible to retire, and those that are not will be eligible for severance pay and other benefits as provided by law. The Agency will provide job-placement assistance and counseling for those employees who seek it.

The Agency is required to follow the requirements of OMB Circular A-76, which have been established in the interest of long-term government-wide productivity and cost-effectiveness. Circular A-76 requires specific methods of considering not only direct current costs, including an allowance for the costs of the transition, but also long-range costs such as future employee benefit payments. We have followed the requirements of the Circular, with the net result that contracting for these services at NCTR was determined to be beneficial to the government.

Milk Contamination

Question. What steps is the FDA taking to monitor and resolve the problem of heptachlor-contaminated milk in Arkansas, Missouri, and Oklahoma?

Answer. FDA's primary role, after finding heptachlor-contaminated dairy products on Oklahoma, Arkansas, and Missouri, has been to stop the contaminated dairy and meat products from reaching consumers, consistent with FDA's authority under the Federal Food, Drug and Cosmetic Act (FD&C Act). We became aware of this recent problem after sampling corn shipped to J.E.W., Inc./Valley Feeds, Inc., Van Buren, Arkansas, for use in their gasohol and animal feed operations. The corn contained high aflatoxin levels. FDA collected additional samples of grain and of spent distillers mash, a by-product of the firm's gasohol production. Analyses of these samples, and samples of milk from dairies which had purchased spent distillers mash for animal feed, revealed violative levels of heptachlor. On February 26, FDA began sampling all milk produced within a 150-mile radius of Valley Feeds, Inc., because Valley Feed's distribution records were inadequate to determine the purchasers of its animal feed. On March 12, 1986, J.E.W., Inc. and Valley Feeds, Inc. were enjoined from selling contaminated spent mash as animal feed.

Our investigation is continuing in cooperation with appropriate state authorities. Over 1200 samples of milk and dairy products have been analyzed by FDA laboratories, 104 or nine percent, of which were found to contain violative residues of heptachlor epoxide at or above 0.1 ppm. Nine firms have initiated recalls of their milk and other dairy products. State authorities have quarantined 56 dairy farms in the three states involved.

In view of the practices of utilizing seed grain to produce alcohol at J.E.W., Inc., we have extended our investigation to other known gasohol manufacturing plants; all have been found non-violative. FDA district offices are investigating known seed brokers/dealers to determine disposition of surplus pesticide-treated grain.

SUBCOMMITTEE RECESS

Senator COCHRAN. The committee will have its next hearing at 9:30 a.m., Tuesday, May 6 in this same hearing room. At that time, we will hear from congressional witnesses and others. Until that time, this committee will stand in recess.

Dr. YOUNG. Thank you very much.

[Whereupon, at 2:47 p.m., Wednesday, April 30, the subcommittee was recessed, to reconvene at 9:30 a.m., Tuesday, May 6.]

MATERIAL SUBMITTED BY AGENCIES NOT APPEARING FOR FORMAL HEARINGS

[CLERK'S NOTE: The following agencies of the Department of Agriculture did not appear before the subcommittee this year; however, at the request of Chairman Cochran, each of these agencies did prepare and submit testimony in support of its fiscal year 1987 budget request. Following review of the testimony, questions were propounded by the subcommittee to the agencies. The answers provided to the subcommittee follow each agency's prepared statement.

The subcommittee wishes to thank the agencies for their cooperation and to assure them that the information they provided will be most helpful in formulating the fiscal year 1987 Agriculture appropriations bill.]

DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY AND DEPARTMENTAL ADMINISTRATION

STATEMENT OF JOHN J. FRANKE, JR., ASSISTANT SECRETARY FOR ADMINISTRATION

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear today to discuss with you the activities and fiscal year 1987 budget request for the Office of the Secretary, Departmental Administration, Advisory Committees, GSA Rental Payments and Building Operations, and the services provided to USDA agencies through the Department's Working Capital Fund.

First, we fully support the President's budget, which meets the deficit reductions required under the Balanced Budget and Emergency Deficit Control Act and will do our part to help achieve the reduced level of government spending necessary. Mr. Chairman, the Gramm-Rudman-Hollings reductions will continue a process we began earlier and will continue, that is, increasing our managerial effectiveness, carefully examining our workloads, reassessing duties and procedures, consolidating and realigning duties and activities. Our management initiatives are beginning to pay dividends now, so that we plan to operate within the reduced levels available in FY 1986 and FY 1987, and yet to continue support to the program agencies of the Department. We will look for further ways to increase our productivity through use of ADP and office automation, to foster good management practices so as to provide administrative support with fewer people. We know we must. As required reductions continue over future years, we will have to alter not only the way we do business, but also the levels of support we can provide. Reductions in support levels will be accomplished in the least disruptive manner. I would like now to review some of the specifics of the 1987 budget.

OFFICE OF THE SECRETARY

The appropriation for the Office of the Secretary provides funds for the Secretary, the Deputy Secretary, the Under and Assistant Secretaries and their supporting staffs. The fiscal year 1987 budget request for the Office of the Secretary totals $5,538,000, a net decrease of $166,000 below the current estimate for fiscal year 1986. This consists of a reduction of $373,000 in Small Community and Rural Development for contracts that will be discontinued and an increase of $207,000 for priority operating costs in nonpersonnel related areas, e.g., telephone and data communication services, supplies and equipment.

We have proposed one account for these offices with the identity of each individual office as a line item within the account.

DEPARTMENTAL ADMINISTRATION

The fiscal year 1987 budget request for Departmental Administration is $21,920,000, a net decrease of $155,000 (about 1 percent) under fiscal 1986. The budget indicates an increase due to the shifting of $2,994,000 in budget authority from USDA agencies to Departmental Administration for activities previously financed by reimbursable agreements; offset by decreases of $596,000 in management savings, as well as a shifting of $93,000 from Departmental Administration to the Office of Governmental and Public Affairs for formerly reimbursable activities in that Office. The decision to refinance these reimbursable activities was made after study and review by a Task Force which included user agencies.

Also included in the FY 1987 request is an increase of $394,000 for the Office of Advocacy and Enterprise to strengthen the programs administered by this Office. This Office was created in FY 1985 to consolidate the offices of Equal Opportunity, Small and Disadvantaged Business Utilization, and the Minority Research and Teaching Programs, formerly part of the Office of Grants Programs Systems. Last, we request a $47,000 increase for the Office of Administrative Law Judges to maintain ADP equipment purchased in prior years to help that small office to keep pace with its workload and for increased operating costs that are not personnel related.

ADVISORY COMMITTEES

The FY 1983 Appropriation Act established a consolidated account for USDA Advisory Committees. The FY 1987 budget request for Advisory Committees is $1,323,000. This is a $8,000 increase from the FY 1986 level of $1,315,000.

Advisory Committees assist the Department by providing USDA agencies with supplemental and specialized expertise from academia or the private sector on a broad range of issues. It would not be feasible to maintain these experts as permanent staff so Advisory Committees provide a way to get these services on an as needed basis. The total number of committees in the budget drops from thirty-five in FY 1985 to thirty in FY 1987. Eleven are established by statute, and the remainder are established by the Department either independently, or with the concurrence of interested Congressional Committees. Since the budget was developed, passage of the Farm Bill has affected the number of committees.

Under the Farm Bill, the Technical Advisory Committee for Science and Education Grants Programs was terminated and five more committees are to be set up. We are looking into that even now and will report to you as these committees are chartered and proceed to meet. We will have to fund these within requested resource levels.

RENTAL PAYMENTS AND BUILDING OPERATIONS

This account funds payment for rental of space and related services received by the Department's agencies from the General Services Administration. Also provided in this account are funds for the Departmental staff and support services to operate, maintain and repair the five buildings in the Washington, D. C. complex. The General Services Administration retains overall responsibility for major non-recurring repairs.

The fiscal year 1987 budget request is $76,180,000. This is $7,474,000 (or about 11 percent) above the current 1986 budget level. Rental payments to GSA total $57,380,000 and the operation and maintenance of the D.C. Building Complex accounts for the balance of $18,800,000. Of the $7,474,000 total increase, $6,367,000 represents increased payments to GSA attributable to rate increases provided by GSA in selected geographic regions applied to the existing inventory of space occupied through September 30, 1987. The remaining increase of $1,107,000 represents additional funding for maintenance and repair of the D.C. complex of buildings to insure compliance with fire and safety code specifications.

WORKING CAPITAL FUND

For forty-two years, USDA has been providing central services to its agencies through the Working Capital Fund (WCF). Since its beginning, we have sought to provide the best services possible at the lowest cost. USDA and the Congress can take pride in the fact that these efforts have been largely successful. Perhaps some background will show where we stand and what we have accomplished in the Fund.

The National Finance Center in New Orleans, Louisiana is the largest WCF activity. The Center serves as a model for the entire Federal Government, pointing the way to effective provision of centralized finance, accounting, payment, personnel, property management, data processing, and recordkeeping. Departmental Computer Centers in Washington, DC; Kansas City, Missouri; and Fort Collins, Colorado, provide cost effective data processing services to USDA agencies. Here in Washington, the WCF provides the means to finance centralized service activities in supply, mail, forms, copier service, photocomposition, photography, video, film, and design services. In FY 1987 we plan to add telecomunications operations and maintenance, central shipping and receiving, central excess property, and Departmental training programs to those already supported by the WCF.

We are continuing to improve management control and oversight mechanisms to insure the integrity and financial stability of service activities. Two features of this system are: 1) the Interagency Review Board, which serves as a "Board of Directors" in reviewing WCF activities and advises me in my role as "Chief Executive Officer" of the Fund, and 2) the Comptroller, who oversees the Fund and is in a position to recommend to me actions that are in the best interest of overall operations of the WCF. The budget reflects careful review and scrutiny by the Board, the Comptroller, and myself and is in keeping with the overall climate of fiscal restraints.

Mr. Chairman, the Committee has been helpful in the past few years, by amending legislation to allow the inclusion of "Growth Capital" in the Fund. This has allowed the Working Capital Fund to avoid excessive leasing costs by buying capital equipment when it is more economical to do so. We have also embarked upon, with the assistance of Congressional appropriations, a four year capital improvement program. We have just completed our second year of the program, improving our opportunities to avoid excessive lease costs for users of centralized services, and we continue to be grateful for your support. However, we continue to lease equipment that should be purchased, which means that our client agencies are paying rates higher than necessary. Our mission is to provide the most efficient, effective, and economical services possible. Therefore, as the next stage of this planned multi-year effort, the fiscal year 1987 budget request includes $6 million to purchase additional equipment to avoid more expensive leasing costs.

We have intensively reviewed the equipment installed or planned for Working Capital Fund activities and our analysis indicates that these activities would spend $3.0 million in annual lease payments for ADP and telecommunications equipment which could be purchased for about $6.0 million. Total lease payments for this equipment over a three year useful life would be $12.8 million. If the Congress approves our appropriation request, we will be in a position to purchase this equipment and thereby achieve a net cost savings of $3.0 million over the three year period. The cost reductions we expect as a result of these actions will continue a trend begun in FY 1985. Costs avoided in FY 1985 amounted to $2.0 million. When added to expected avoidances of $6.8 million, $3.0 million, and $4.0 million for actions taken in fiscal years 1986-1988, we expect to save the agencies approximately $16 million in excess lease costs.

While this request for capital procurement funding is substantial, it is based on sound management principles. We will, of course, continue to annually evaluate our needs and will hold our Working Capital Fund request to the lowest possible level, while using available resources to obtain maximum possible benefits for our user agencies.

The budget also projects overall operating levels for Working Capital Fund activities. These operating levels are reimbursed by USDA and other government agencies and are based on their demand for Working Capital Fund services. Responsibilities at the National Finance Center now include servicing arrangements to perform payroll, personnel and other services for the Departments of Commerce and Education, and the Merit Systems Protection Board. In providing services to agencies outside of USDA, we can reduce cost shares borne by USDA users of these services by spreading fixed costs over a broader user base. We expect savings in annual processing costs to USDA users of $407,000. We can also help non-USDA clients avoid costs associated with the start-up of such services and annual processing costs. The expected annual savings attributable to "cross servicing" total $1,050,000 for non-USDA users. Savings for both USDA and non-USDA users are in addition to those achieved through purchasing rather that leasing equipment.

The overall operating level for the Working Capital Fund in fiscal year 1987, excluding capital equipment acquisition, is estimated at $109,777,000. This estimate of increased operating requirements is based on the assumption of telecommunications, central shipping and receiving, central excess property, and training functions into the Fund; and the closing of the printing plant at the end of FY 1986. These actions, the expansion of service to non-USDA agencies provided by NFC and the increase in service demand at the Departmental computer centers will result in operating cost increases of $4.4 million over FY 1986 levels.

Mr. Chairman, that concludes my prepared statement. We have provided additional information in our budget justifications and would be glad to provide any further details the Subcommittee may require. We are available to answer any questions you may have.

Questions Submitted by Senator Cochran

INDIVIDUAL APPROPRIATIONS

Question: Last year, the Congress provided individual appropriations for each Under and Assistant Secretary. This year, you are proposing to reconsolidate these accounts. What problems did the individual appropriations cause this year?

Answer: There has been a tenfold increase in our administrative burden due to the necessity of developing and maintaining separate budgets, plans, accounting and personnel data for each individual appropriation as opposed to one. By reestablishing the single appropriation, the Secretary would be provided reasonable management flexibility, and savings would be realized in the areas of paperwork reduction and personnel time necessary to maintain individual accounts. However, the individual offices would continue to be shown as line items in the budget, and any shifts in funding among offices would be subject to normal reprogramming procedures.

OTHER USDA APPROPRIATIONS

Question: In the explanatory notes, under "Obligations under Other USDA Appropriations," it appears that no funds will be spent next year for Grain Storage and Elevator Safety, nor for Agriculture in the Classroom. What was the goal of these programs:

Answer: The goal of the Grain Storage and Elevator Safety program was to increase awareness and knowledge on safety in grain handling to the small handling firms. This program was not funded through direct appropriations. It is no longer handled within the Office of the Secretary, but within the Federal Grain Inspection Service.

The goal of the Agriculture in the Classroom program is to encourage all States to develop an information program of American Agriculture in their elementary and high schools so that students understand the basic concepts of agriculture and how and where our food supply comes from. This program will be administered by the Office of the Secretary during fiscal year 1986, but in fiscal year 1987 it will be handled by the Cooperative State Research Service.

Question: For what purposes are funds transferred to your office for the Food and Nutrition Service?

Answer: Funds are transferred to provide for the preparation and review of legislation and regulations dealing with special nutrition services.

Question: Please discuss the activities of your agricultural labor affairs office, funded primarily under AMS. Why is this not completely funded through the Office of the Secretary?

Answer: The Agricultural Labor Affairs program consists of developing systematic agricultural labor policy to ensure an adequate and productive supply of labor to facilitate agricultural production and to ensure an adequate level of income and quality of life for USDA employees. In order to strengthen the effectiveness of the agricultural labor affairs program, it was transferred to the Assistant Secretary for Economics and the Economic Research Service. The Economic Research Service carries out a national program of research relating to the production and marketing of agricultural commodities.

STAFF-YEARS

Question: In all but one place, you show that the office will use 99 staff-years, but on the chart, "Geographic Breakdown of Obligations and Staff-Years" you show that only 86 will be needed. Could you explain this discrepancy?

Answer: The 86 staff-years shown in the Geographic Breakdown of Obligations and Staff-Years are those funded through direct appropriation. It does not include the 13 staff years funded through other USDA appropriations listed on the Available Funds and Staff-Years.

RECEPTION AND REPRESENTATION EXPENSE

Question: Last year, you asked for, and the Senate included in our bill, an increase in official reception and representation expense from $8,000 to $15,000. That increase was dropped in conference. Why are you not requesting that increase again?

Answer: During FY 1985 the Office of the Secretary was able to curtail expenses and live within the $8,000 alloted by Congress for the reception and representation expenses. We did not ask for an increase in this account as we plan to continue in this vein.

MANAGEMENT INITIATIVES

Question: Last year, this Committee indicated its support of the Secretary's Management efficiency initiatives, and urged caution and prior notification before closing any State or county offices. Could you give us an update on those initiatives, including the Secretary's steering committee?

Answer: The Task Force and steering committee appointed by Secretary Block to review the Department's headquarters organization, field structure, and administrative support activities presented its report to the Secretary in October last year. While there were no recommendations to close field offices, the report did stress sharing of administrative support services, strengthening Food and Agriculture Councils at the State level to facilitate local planning, and for a more diligent and comprehensive county office colocation policy. Upon completion and submission of the report, "A Blueprint for the Future Organization of USDA", the Task Force and steering committee were terminated.

CLASSSIFICATION BY OBJECTS

Question: Last year, you had estimated that costs for 1986 under "Classification by Objects" would be substantially different than you now estimate. For example:

Object	Last year's 1986 estimate	This year's 1986 estimate
Communications, utilities, other rent	$266,000	$467,000
Printing/Reproduction	147,000	267,000
Other Services	208,000	400,000

All told, for objects other than personnel, you had estimated $928,000 for 1986. Now that estimate is $1,519,000. Why is there such a large discrepancy?

Answer: The original estimates for FY 1986, submitted in February of 1985 included substantial management reductions and consequently were based on a lower budget level ($4.6 million) for the Office of the Secretary. Subsequently, the Congress added $1.1 million to the budget for a total FY 1986 appropriation of $5.7 million. Some of this increase was applied to operating costs and the balance was for salaries. Since the original FY 1986 estimates were developed, there have been changes within the Office of the Secretary which has affected its staffing. These changes are the consolidation of the rural development activities within the Office of the Under Secretary for Small Community and Rural Development and the Agricultural Labor Affairs activities which has been added to the Assistant Secretary for Economics. There has also been an increase in office automation. These changes have resulted in an increased base level which contributes to the differences within the operating costs.

CONTRACTS

Question: What contracts will be discontinued under the jurisdiction of the Under Secretary for Small Community and Rural Development?

Answer: In the Continuing Resolution, the $375,000 in grants was authorized for projects that were formally administered under contract by the Office of Rural Development. The grant money will be used to further rural development projects specified in the legislation.

EQUIPMENT COSTS

Question: In 1985, equipment costs were $731,326. For 1987, you estimate costs of only $198,000. Please tell us about this item.

Answer: The purchase of equipment goes up or down depending on the plans for each year. In 1985, we purchased a lot of ADP equipment, e.g. personal computers, printers, computer desks, etc. to further our efforts in the area of Office Automation and to give our people the tools to work smarter and be more productive. Once purchased, this equipment has a life of over 4 to 5 years, so we are planning a lower level of purchase in FY 1987. Of course, there is a overall ADP plan shown in the ADP notes, that lays out our long range plans for ADP equipment.

LAND AND STRUCTURES

Question: For what purpose was $77,463 spent for "Lands and Structures" in 1985?

Answer: These funds were used to create a secured area in which to administer the Department's Federal Emergency, NATO, and National Security Programs.

REIMBURSABLE ACTIVITIES

Question: Why was the decision made to transfer almost $3 million to Departmental Administration for activities previously financed by reimbursable agreements?

Answer: During last summer's Budget and Program Development and review cycle, a working group of the Department's Interagency Review Board on the Working Capital Fund reviewed these activities. Many of these activities had been, of necessity, begun as reimbursables in past years and continued for convenience sake. The Board recommended that the reimbursable program be converted to appropriated items. The Board felt that it would be advantageous to the Department to have the agencies make a one-time transfer of appropriations to the organizations providing these activities. In future years, appropriations will be requested and justified for these activities on a direct basis.

Question: Why are you proposing to delete section 627, which requires funds for one-year contracts which are performed in two fiscal years to be obligated in the year for which the funds are appropriated?

Answer: We are deleting sections that were not requested last year. Also this section is unnecessary since contracts are normally recorded as an obligation at the time they are signed.

ADVOCACY AND ENTERPRISE INCREASE

Question: A 17 percent increase for the Office of Advocacy and Enterprise (OAE) is a large increase, especially since offices are being combined. There is a general description of the need and nature of the increase in the explanatory notes, but I would like for you to be more specific about your plans for the office, and why such a large increase is warranted. Please include an explanation of whether staff consolidation will produce some savings.

Answer: The original intent per Secretary's Memorandum 1020 that established the Office of Advocacy and Enterprise by consolidating the Offices of Equal Opportunity (EO), Small and Disadvantaged Business Utilization (SDBU), and Minority Research and Teaching Programs (MRTP) was to eliminate duplication and improve the efficiency and coordination of each of these important program areas. In effect, offices were not "combined," but brought together under one management in a union of related, but distinct, advocacy and enterprise functions for the purpose of broader, USDA-wide policy oversight and coordination.

When the new office was created, a Director and two staff positions were added to the new organizational structure. In the last half of Fiscal Year 1985 and during the implementation stages of program coordination in Fiscal Year 1986, cost of the overall administrative management and coordination functions for the components of the new organization was absorbed through staff attrition and use of available resources.

Although the Competition in Contracting Act (CICA) functions were assigned to OAE in Fiscal Year 1985, no additional funding was initially allocated for staffing and program activities. The funding request for Fiscal Year 1987 addresses the requirements for the CICA by, establishing one new position and program functions within the Office of the Director, OAE.

Funds were transferred in Fiscal Year 1986 to OAE from the Office of Grants and Programs Systems to support two of three positions associated with MRTP. The funding request for Fiscal Year 1987 provides funding for a third staff position for this component of the OAE organization.

During the last half of Fiscal Year 1985 and in the current budget year, efforts are underway to rebuild and establish a strong civil rights program at USDA. It has been clear during the course of this year's budget constraints that additional funds will be needed in Fiscal Year 1987 to enhance Equal Opportunity's capability to travel for the purpose of state-wide and/or agency specific compliance reviews and complaints investigations. We are acutely aware that investment on the front-end will net larger savings on the back end if civil rights compliance issues and complaints investigations are managed efficiently.

Procurement compliance reviews and technical assistance for procurement/contracting functions at USDA agencies during Fiscal Year 1986 has been limited. Additional funding was requested to provide travel support for staff to adequately carry out these required functions.

In conclusion, the $394,000 provides sufficient funding to make the newly created Office of Advocacy and Enterprise whole and allow it to function effectively. We recognize the importance of this office and have tried to provide it the resources to accomplish its mission.

MANAGEMENT SAVINGS

Question: Management Savings has been a familiar buzz word in Washington. However, there is a point at which "Management Savings" will translate into increased workloads, inefficient management and low morale. $555,000 is a substantial cut to be attributed to management savings. Will this cut result in the negative consequences of too much "Management Savings"?

Answer: A half million dollar cut is significant, but we will manage, and we don't feel that it will automatically result in the negative consequences you describe. If workloads increase, but use of automation offsets the increase and allows us to meet the workload, there is increased productivity, and we will manage our resources better. In terms of morale, a lot of factors have an impact on that area, mostly at the front line of management. Some of the best morale is in highly productive and well led program activities.

GENERAL PROVISIONS

Question: Why isn´t justification given in the explanatory notes for proposed changes in the general provisions portion of our bill?

Answer: The justifications for the deletion of the last four sections of the General Provisions were inadvertently omitted. Sections 627 through 630 are requested to be deleted because the sections were not requested last year.

ADVISORY COMMITTEES

Question: Why is the Joint Nutrition Monitoring Evaluation Committee being terminated?

Answer: The present committee has completed its task. The report is being printed and shall be delivered to Congress, shortly. We project that a new committee, possibly with a different format, will be constituted next fiscal year.

Question: How many times did each Advisory Committee meet last year?

Answer: Listed below, in alphabetical order, is each Advisory Committee authorized under this appropriation that met during Fiscal Year 1985. Also shown is the number of meetings each Committee held during the fiscal year.

COMMITTEE TITLE	NO. OF MEETINGS
Advisory Committees on:	
Foreign Animal and Poultry Diseases	1
Swine Health Protection	1
Instruments and Standards for Cotton	1
Agribusiness Promotion Council	1
Agricultural Export Enhancement Advisory Group	1
Agricultural Policy Advisory Committee for Trade	1
Agricultural Structures Planning Advisory Committee	1
Animal Health Science Research Advisory Board	1
Citizen´s Advisory Committee on Equal Employment	1
Committee of Nine	3
Dietary Guidelines Advisory Committee	1
Federal Grain Inspection Service Advisory Committee	5
General Conference Comm. of the Nat. Poultry Improvement Plan	1
Human Nutrition Board of Scientific Counselors	2
Joint Nutrition Monitoring Evaluation Committee	2
National Advisory Committee on Meat and Poultry Inspection	1
National Advisory Council on Child Nutrition	1
National Advisory Council on Maternal, Infant and Fetal Nutrition	1
National Agricultural Cost of Production Standards Review Board	2
National Agri. Research and Extension Users Advisory Board	4
National Arboretum Advisory Council	1
National Plant Genetic Resources Board	2
Plant Variety Protection Board	1
Policy Advisory Committee on S & E Research Grants Program	2
Technical Advisory Committee for S & E Grants Program	32

Question: Please list those Committees which did not meet at all.

Answer: That list follows.

COMMITTEE TITLE

Aquaculture Advisory Board
Cooperative Forestry Research Adviosry Council
Food and Agricultural Sciences National
  Needs Graduate Fellowships Grant Committee
National Advisory Council on Rural Development
Rangeland Research Advisory Board
Technical Advisory Committees for Trade in:
  - Cotton
  - Fruits and Vegetables
  - Grain and Feed
  - Livestock and Livestock Products
  - Oilseeds and Oilseed Products
  - Poultry and Eggs
  - Tobacco
  - Dairy Products

Question: What Advisory Committees are there which are not included under this appropriation? Under what appropriation are they provided?

Answer: Listed below are the names of those Advisory Committees not included under this appropriation. The committees are grouped by source of funding. The number of meetings held by each committee during Fiscal Year 1985 is also shown.

Title of Committee	No. of Meetings
Funds provided through user fees:	
Flue-Cured Tobacco Advisory Committee	2
National Advisory Committee for Tobacco Inspection Services	3
Funds provided through Department of the Interior Appropriations:	
Pacific Crest National Scenic Trail Advisory Council	2
Florida National Scenic Trail Advisory Council	1
Mono Basin National Forest Scenic Area Advisory Board	5
Mount St. Helens Scientific Advisory Board	3
The Committee on State Foresters	1
Grazing Advisory Boards for:	
Appache National Forest	1
Black Hills National Forest	2
Bridger-Teton National Forest	2
Caribou National Forest	1
Challis National Forest	1
Coconino National Forest	1
Colville National Forest	2
Coronado National Forest	3
Deschutes National Forest	1
East Carson National Forest	1
Freemont National Forest	1

Grazing Advisory Boards (continued):

Gila national Forest	2
Humboldt National Forest	1
Inyo National Forest	2
Lewis and Clark National Forest	1
Lincoln National Forest	2
Los Padres National Forest	1
Malheur National Forest	1
Medicine Bow National Forest	2
Modoc National Forest	1
Nezperce National Forest	2
North Kaibab	1
Ochoco National Forest	1
Okanogan National Forest	3
Payette National Forest	1
Prescott National Forest	1
Routt National Forest	2
Sanjuan National Forest	4
Sawtooth National Forest	2
Sierra National Forest	2
Sitgreaves National Forest	2
South Kaibab	1
Stanislaus National Forest	2
Targhee National Forest	1
Toiyabe National Forest	2
Tonto National Forest	2
Uinta National Forest	1
Umatilla National Forest	1
West Carson	1

Question: Will the National Advisory Council on Rural Development now be more active since there is no longer an Office of Rural Development Policy?

Answer: Yes. The National Advisory Council on Rural Development will be more active and advise the Under Secretary for Small Community and Rural Development.

RENTAL PAYMENTS AND BUILDING OPERATIONS

Question: For 1986, separate appropriations were provided for GSA rental payments and repair and maintenance costs. Did that cause any problems?

Answer: No. Separate accounts work fine for the Department, in that they facilitate clear financial accountability.

Question: What effects did the March 1 sequestration have on this account?

Answer: The FY 86 budget operations and maintenance was $17.8 million. The March 1 sequestration reduced the budget to $16,932,000 or a reduction of $868,000. This has resulted in repair projects being delayed or phased over several years.

Question: In May, 1985, the GSA delegated to USDA the authority for administering leases for field installations. As a result over $2,000,000 was transferred to SCS, ASCS, and FmHA for field leases. Will those funds be transferred again in 1987, or were funds for those purposes included in the budget requests for the respective agencies?

Answer: The funds for leases transferred from GSA control to SCS, ASCS, and FmHA control have been budgeted for in the respective agencies budgets. Funds need not be tranferred from the Departmental SLUC appropriation in Fiscal Year 1987.

Question: Why are you proposing to delete section 629 of the agriculture appropriations bill, allowing CCC to lease space for its own use or to lease space on behalf of other USDA agencies when such space will be jointly occupied?

Answer: The CCC has the authority to lease space for its use and to lease space on behalf of other USDA agencies.

Question: Will any of the requested amounts for this account cover GSA assessments from fiscal year 1986 which were not paid due to a lower-than-requested appropriation, as well as the March 1 sequestration? If so, how much?

Answer: No, the appropriation request for FY 1987 is to cover an estimated year's worth of bills from GSA based on the amount of occupied square feet times the allowed rate. These rates are set by GSA from surveys of comparable space and do not have payment shortfalls from prior years built into them.

Question: You are requesting an increase of $6,367,000 over the presequester 1986 level for rental payments -- an average rate increase of 12.5 percent. The explanatory notes state that the increase is to cover rate increases in "selected geographic areas." This must mean that, in cases where rates were increased, the increases were substantially higher than 12.5 percent. Is that an accurate statement?

Answer: Yes, it is.

Question: Has GSA provided adequate justification, in the Department's view, for the increases in rates?

Answer: GSA provided the Department with an explanation for any rate changes based on individual market surveys on each of our GSA assignments.

Question: Last year, the Committee was aware of a $70 million backlog of repairs and building alterations, mostly to correct safety and functional deficiencies. In response to that need, Congress appropriated the $17.8 million requested in the budget for 1986 for building operations and maintenance. This year, however, the explanatory notes show that there continues to be a $70 million backlog. Is any progress being made in reducing this backlog?

Answer: Progress has been made on reducing the backlog from last year. However, as we address projects or problems, new ones continue to be added. In May of 1986, a major 350 ton chiller failed. Analysis showed the 25 year old unit needed to be replaced along with its associated cooling tower. This was an unexpected

$200,000 expense. Also, a recent review of the parapet walls on the South Building roof show an advanced stage of deterioration. In FY 1986 we will spend $100,000 to address the most critical areas and will be required to spend in excess of $1 million over several years to resolve all the problems. The same severity exists with asbestos abatement for the South Building where $25,000 will be spent this year to abate the critical areas while $1 million will be required in the immediate future to complete the abatement process.

Question: How many times has the authority to transfer funds between the SLUC account and an agency's appropriation been utilized? How much was transferred in each case?

Answer: FY 1985 was the first year in which we transferred funds between the GSA Rental Payments appropriation and an agency appropriation since this account was established. We transferred $360,000 to SCS in FY 1985. In FY 1986, we have already transferred $2,119,890 to FmHA, ASCS and SCS.

Question: Last year, you told the Committee that there was "no clear definition of a non-recurring repair", and that there was little possibility that GSA will initiate a program to correct or even reduce the $70 million backlog. Do you have an update on either of those statements?

Answer: The issue of recurring repair or non-recurring repair is one of continual discussion with GSA. To date, no acceptable resolution has been reached. As to GSA's participation in reducing the over $70 million backlog. There may be some improvement in the Fall of 1986. GSA is proposing to award a renovation contract for the Main Auditors Building. This will result in substantially reducing the repair backlog of this facility. Other than that, we project no additional assistance with the growing repair backlog.

WORKING CAPITAL FUND

Question: The conferees on the Agriculture Appropriations bill for 1986 agreed to a limitation on personnel compensation and benefits paid from the Working Capital Fund. A limitation is placed on several user-fee funded activities and agencies in our bill.

Why are you opposed to this limitation and no other?

Answer: The Working Capital Fund will support nineteen activities in FY 1987, ranging from central supplies to automated data processing to central accounting services, to both USDA and non-USDA users. With such a range of activities, and with over forty USDA agencies and other Federal agencies using these services, workload demand is often unpredictable. Frequent surges in workload demand, particularly in our computer centers and at our National Finance Center, require the employment of increased personnel resources. Should a limitation be placed on the Fund for personnel compensation and benefits, activity centers supported by the Fund would find it very difficult, if not impossible, to meet the service demands of USDA and other Federal agencies. Under the current limitation for FY 1986, while we fully expect to comply with the language of the limitation provision, we are finding it extremely difficult, especially in the National Finance Center, to respond to agency service needs at the required quality level.

Question: In your statement, you say that certain activities of the Working Capital Fund would spend "$3 million in annual lease payments for...equipment which could be purchased for about $6 million. Total lease payments for this equipment over a three-year useful life would be $12.8 million." Please explain how a $3 million per year lease could cost $12.8 million over three years.

Answer: Our original statement regarding this equipment was in error. For this we apologize to the Committee. The $3 million in annual lease payments did not include costs for maintenance of the equipment. Also, the useful life for this equipment is four, not three years. With these costs and useful life accounted for, total costs over the useful life would amount to $12.8 million.

Question: In your statement, you say that you "expect to save the agencies approximately $16 million in excess lease costs," from fiscal years 1985-1988. In those same years, you either have received or hope to receive $6 million per year, or $24 million. Is there something missing from this which would support your argument to spend now in order to save later?

Answer: The $16 million in savings are those savings in excess of the $24 million to be spent improving the capital position of the Fund.

Question: How much, in terms of dollars and staff-years, is utilized to provide services to the Departments of Commerce and Education and the Merit Systems Protection Board?

Answer: The following table depicts the latest estimates of dollars and staff-years by Department for FY 1986.

Agency	Total Cost	FTE
Commerce	$ 1,544,000	58
Education	389,000	12
Merit Systems Protection Board	89,000	5
TOTAL	2,022,000	75

Question: What effects did the March 1 sequestration have on the Working Capital Fund?

Answer: As a recurring fund, operating funds were not subject to sequestration as set forth in the legislation. The appropriation for capital acquisitions was subject to sequestration, but the Office of Management and Budget did not subject these funds to the sequestration provision and did not offer reasons for this action.

Question: Is the Working Capital Fund becoming a sort of mini-GSA, with all the central services it has or will require?

Answer: As the funding mechanism for a wide range of central services benefitting over forty USDA and non-USDA users, the Fund is very sensitive to changes in workload demand. This demand influences both funding levels and the nature of the services provided. We have added several activities to the Fund in recent years, including telephone service operations and a Departmental local area network for telecommunications, and removed others, including photocomposition services. Fund activities undergo routine reviews by the Fund's Comptroller and a review board of agency users. These reviews often result in a change in scope or magnitude of services supported by the Fund; some grow while others are diminished as the mission of the Fund's clients require a greater or fewer number of services. All we can say for certain is that Fund services will change with the times and the needs of its users.

Question: For what will the $6 million which you request for 1987 be spent?

Answer: The $6 million would be spent on the following:

National Finance Center:	
Front-end Processor	$ 200,000
On-line COM	100,000
Shared Logic Office Systems (3)	450,000
Cartridge Tape Drives/Control Unit	400,000
Work Stations (600)	2,000,000
	3,150,000
Fort Collins Computer Center:	
Tape Drive	350,000
M03 Processor	800,000
	1,150,000
Kansas City Computer Center:	
Upgrade 3083E to 3081K	1,700,000
	1,700,000
Total	$6,000,000

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

STATEMENT OF WILMER D. MIZELL, ASSISTANT SECRETARY

Mr. Chairman and members of the Subcommittee, I am pleased to be here to discuss the fiscal year 1987 request for the Office of Governmental and Public Affairs (OGPA).

I have with me today James Boillot, the newly-appointed Deputy Assistant Secretary of Governmental and Public Affairs, John McClung, Director of the Office of Information, and Raymond Lett, newly-appointed Director of the Office of Intergovernmental Affairs.

As you know, OGPA is responsible for communicating departmental policy and program information to the Congress, the public, and State and local governments. Through leadership and coordination, we are the communication core of the Department of Agriculture.

We are in an age of rapid technological change in the ways in which we communicate agricultural information to the members of the public. Through the use of electronic communications, satellite transmissions, and advancements in print technologies, we are and will continue to serve the public.

Additionally, organizational streamlining and program evaluation are ways in which we continue to develop one of the most efficient communications operations in the Federal Government, while at the same time enabling us to be more efficient in communicating to larger audiences.

During the past year, the Public Liaison activities of the Department were assigned to my office. Public Liaison's function is outreach--to broaden the knowledge of agricultural issues. Some of its programs, such as Private Sector Initiatives are aimed at specific audiences. Others, such as the Spokespersons Program, are designed for the general public and cover a borad range of agricultural topics.

During fiscal year 1986, several program functions, such as some of those in Public Liaison, are being financed through cooperative arrangements with USDA agencies; for which, direct funding is requested for fiscal year 1987.

FISCAL YEAR 1987 BUDGET REQUEST

I am requesting a funding level of $8,570,000 for fiscal year 1987. This includes, as previously mentioned, activities that were funded through cooperative arrangements with other USDA agencies.

The fiscal year 1987 appropriation request is $82,000 less than our adjusted appropriation for fiscal year 1986. This is a 1 percent reduction and reflects operating efficiencies and management savings which will be accomplished by realignment of workloads, use of office automation, and general operting economies.

We will continue to publish the Yearbook of Agriculture and expect to print 232,250 copies.

This concludes my statement, Mr. Chairman. I will be happy to respond to questions.

BIOGRAPHICAL SKETCH

JAMES B. BOILLOT
Office of Governmental and Public Affairs
UNITED STATES DEPARTMENT OF AGRICULTURE

James B. Boillot became Deputy Assistant Secretary, Office of Governmental and Public Affairs for USDA. Boillot, who has twice served as Director of Agriculture for the State of Missouri, is a native Missourian and life-long farmer in central Missouri. During his farming career he was selected as Missouri's outstanding commercial pork producer and the farming operation was recognized for innovation and conservation activity.

During his service as Director of Agriculture, Boillot was chosen to serve on numerous Federal Advisory Committees. He also served as President of the Midwest Association of State Departments of Agriculture, President of the Mid-America International Agri-Trade Council and was President-elect of the National Association of State Departments of Agriculture. Boillot is listed in Who's Who in the Midwest.

Boillot was active in farm organizations and community groups, serving as President of the Missouri Pork Producers' Association, President of his County Farm Bureau, Chairman of the Extension Council and as a member of the Missouri Farm Bureau Federation Board of Directors.

Boillot's career in agriculture began when he was elected as Vice-President of the Missouri Association of Future Farmers of America and awarded the American Farmer degree. He has been the recipient of numerous citations and awards including Gamma Sigma Delta, "Merit Award for Service to Agriculture", the

Centennial Award from the University of Missouri College of Agriculture, the Faculty-Alumni Award from the University of Missouri, the "Builder of Men" Award from the Missouri Farm House Association and was selected as "Man of the Year" by the Missouri Agri-Industry Council.

A graduate of the University of Missouri with BS and MS degrees, Boillot has been active in alumni association work and has served as President of the Missouri Farm House Alumni Association.

He and his wife Phyllis are parents of a son and two daughters and prior to moving to Washington, D.C. resided on their farm near Columbia, Missouri.

He is an active member of the Presbyterian Church.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

YEARBOOK OF AGRICULTURE

Question: For the past several years, you have proposed to discontine publishing the Yearbook of Agriculture. This year, however you are no longer proposing that. How much will it cost in fiscal year 1987?

Answer: Last year was the only time that we proposed to discontinue the Yearbook of Agriculture. In fiscal year 1987, we plan to spend approximately $500,000 for the Yearbook.

PUBLIC LIAISON

Question: In your statement, you mention that you now have under your jurisdiction Public Liaison activities of the Department. Under whose jurisdiction had they been?

Answer: Until the Office of Public Liaison was transferred to my office it was under the jurisdiction of the Office of the Secretary. Four staff-years were transferred over with the Office in fiscal year 1985.

Question: Is this the reason you are requesting 5 additional staff-years?

Answer: Three of the five additional staff years funded by direct apropriation are associated with the transfer of the Photocomposition Unit into the Office of Governmental and Public Affairs from the Office of the Secretary. This transfer should have been reflected in the FY 1985 and FY 1986 columns of the Explanatory Notes when comparability adjustments were made. The other two additional staff years funded by direct appropriation were converted from reimbursable activities.

RESOURCES MANAGEMENT

Question: In the explanatory notes, under "Available Funds and Staff-Years," there will be no more obligations under other USDA appropriations except "Resources Management Staff." Are these no longer going to be funded, or are they now included in the appropriation request?

Answer: For fiscal year 1987, most programs previously financed by other USDA appropriations are included in the appropriation request.

Question: Why was Resources Management Staff not also proposed to be funded by direct appropriation?

Answer: The Resources Management Staff covers the cost of the administrative support services provided by Office of Governmental and Public Affairs staff to the Working Capital Fund. It seems more appropriate for an activity of this kind to be financed by the end user than by direct appropriations.

TRAVEL

Question: Your travel budget will have increased 219 percent in two years, if your budget request is approved. Please justify this.

Answer: We made a concerted effort to curtail travel in fiscal year 1985. As a result, our travel base is considerably lower than it would be. A better level for travel for the Office is approximately $160,000, which is our fiscal year 1986 estimate without adjustments for comparability. Comparability adjustments increase the fiscal year 1986 estimate to $183,000, which compares favorably to the fiscal year 1987 estimate when inflation is taken into account.

BROADCAST SERVICES

Question: How effective are your television services?

Answer: Television service is measured by the number of stations programming these services. Our weekly half-hour magazine format program "A Better Way" is sent on videotape to over 50 television stations and our weekly news feature service "Down to Earth" goes to over 45 stations on videotape. In addition, USDA distributes these two series and a weekly news service via satellite. USDA notifies the 942 television stations in the nation periodically about which satellite the services are on and the days of the week and times of the day the services are available. Indications are that at least as many more stations are taking the services from satellite as do from videotape.

In addition to these weekly services distributed on both videotape and by satellite, USDA periodically conducts Satellite TV News Conferences video one-way, audio two-way events provide national coverage, with questions coming in from broadcasters from throughout the country. Radio stations and agricultural networks also receive the audio via telephone and satellite. For the most recent of these events with Secretary of Agriculture Richard Lyng, the number of television stations notified and affiliated with agricultural TV networks participating totaled 496. The number of radio stations receiving the audio directly via telephone or on a special "Networks of Networks" satellite feed totaled 1,409.

Question: Do stations pay for your news and feature programs?

Answer: USDA does not charge stations for its news and feature programs. Stations receiving USDA television services on videotape are obligated to pay the cost of returning the tapes to USDA. Stations receiving the services via satellite have no costs involved in programming the services.

Office of the Inspector General

Statement of Robert W. Beuley, Deputy Inspector General

Mr. Chairman, Members of the Committee, I appreciate the opportunity to appear before you today.

The Department of Agriculture must cope with a very dynamic environment in view of the current farm economy, the new Farm Bill, the balanced budget legislation, and efforts now in process to automate major activities within USDA.

Our role in this changing environment is not only to deal with current problems but to keep abreast of the proposed changes and to look for areas that are potentially vulnerable to fraud, waste and abuse. I have assembled a team to evaluate the impact of these new changes on the Department's programs and to develop a strategy for the Office of Inspector General's audit and investigative efforts during fiscal year 1986 and beyond.

One of the main purposes of this evaluation will be to provide early assistance to the Department in establishing and strengthening internal controls in the Farm Bill's implementing regulations. The task team will also be alert to provisions of the Bill that have an impact on more than one program to ensure such matters are considered during Department deliberations. Another purpose of this effort will be to develop a short and long range OIG plan for reviewing the programs at the various operating levels. We will conduct similar reviews on modifications that are made in Departmental programs as a result of implementing reductions required by the balanced budget legislation.

The task team has made a number of recommendations to preclude duplicate participation in more than one county; improve agency procedures for reviews of participants' compliance with program requirements; and to better ensure that payments from one program are used to repay debts owed by the same participant under another program.

We have also informed the Department of areas where decisions will be needed to provide for a consistent application of program benefits. These concern:

- Loans to borrowers which could increase the production of commodities intended for control under other programs.

- A provision which requires the Department to purchase a minimum amount of red meat without a corresponding relation to the amount of product resulting from slaughter under the Dairy Herd Termination Program.

- The need for cross compliance in all related programs to better control surplus commodities and soil erosion.

The task team identified a number of areas where increased attention by OIG is warranted. We believe that early detection and prevention are of greater value than attempting to recover funds once disbursed. This early coverage will concentrate on:

- The Dairy Herd Termination Program to evaluate the establishment of producer milk bases, controls over the handling of bids, and inventories of cattle scheduled for disposition,

- The Conservation Reserve Program to evaluate the methods used to determine land eligibility and the propriety of bids, and

- The Production Adjustment Programs to determine whether farm bases and yields have been established correctly under new provisions of the Farm Bill, farms are properly constituted, and advance payments are properly controlled.

We plan to provide Department managers with an assessment of these critical implementation provisions in time for adjustments to be made if misunderstandings exist at the State and County levels.

Our long term plans call for coverage of program compliance by participants, the implementation of program agencies' internal review procedures to determine participants' compliance, and the adequacy of controls over program payments. Additional coverage is being planned to evaluate the establishment of world market prices for use under the Rice and Cotton Loan Programs. Coverage of Farmers Home Administration programs will include such critical areas as the controls which will allow for prompt handling of loan applications without a decrease in sound loan making practices and safeguards to ensure that the new claims settlement provisions are not abused.

Even with the current concentration on programs affected by the Farm Bill, our overall program for FY 1986 and 1987 will contain a balanced coverage of ongoing Department programs such as food stamps and meat and poultry inspection as well as key administrative areas such as personnel, procurement, cash and debt management.

Also, the impending reductions in USDA programs and the related diminishment of the number of employees associated with these programs are of concern to OIG from a workload standpoint. It has been our experience in the past that when programs are eliminated or phased down, our workload increases or remains constant rather than decrease. Close out audits and investigations will continue to demand our attention for sometime in these programs.

Now, I would like to briefly discuss some of our specific efforts in the Department's programs.

FARMERS HOME ADMINISTRATION (FmHA)

With the continuing financial problems of farmers, this past year has been another difficult one.

Rural Housing Interest Subsidies

Our Nationwide statistical audit estimated that 30 percent of interest credit agreements (ICAs) executed in FY 1983 contained understatements of income and other errors at the time of approval which caused excessive interest subsidies of about $32.2 million for the 1-year periods covered by the ICAs. These errors are attributable to insufficient controls to disclose unreported applicant income, obtain accurate income data from employers, and ensure the accuracy of computations. Although regulations were changed to require annual ICA renewals, excessive subsidies continue. As a new approach, we recommended that FmHA seek cooperation with State agencies that administer unemployment compensation programs to verify wages for all adult household members before executing initial and renewal ICAs. FmHA is currently testing the use of State agency wage data in one State.

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE (ASCS)

Commodity Credit Corporation (CCC)

Payment Limitations

An OIG review performed in eight states found that nearly one half of the entities reviewed did not qualify as separate "persons" for purposes of the $50,000 price support and production adjustment payment limitation for crop year 1982 and 1983. These entities were scheduled to receive payments for those years totaling $1.7 million, all in excess of the payment limitation. We recommended that ASCS require additional information from producers on how new entities will be financed and operated; obtain profit and loss statements and other partnership or corporate information; provide computer-generated exception listings showing recipients of payments exceeding the maximum limitation by address; and, collect the excess payments made. The Food Security Act of 1985 continues the $50,000 payment limitation provision. OIG will continue to monitor and review this vulnerable area.

Marijuana

Based on recommendations by OIG, language was included in the Food Security Act of 1985 which provides that any person who is convicted under Federal or

State law of planting, cultivating, growing, producing, harvesting or storing a controlled substance in any crop year shall be ineligible for program benefits for that year and the four succeeding crop years. The new legislation denies benefits not only to participants of ASCS programs but to FmHA loan borrowers and FCIC programs.

FOOD AND NUTRITION SERVICE (FNS)

Food Stamp Claims

We examined efforts by the respective States to establish claims and to make collections against food stamp recipients that were ineligible or received excess program benefits. OIG estimated a $4.3 million increase in monthly collections by State agencies if allotment reduction provisions were fully implemented. We also highlighted the need for States to pursue backlogs of claims totaling over $200 million. The Food and Nutrition Service has reported improvements in getting the allotment procedures in place and the use of automated data systems to better manage food stamp claims.

Retailer Tracking System

A second major program area audited by OIG relates to the automated system by which FNS seeks to identify food store retailers who might be abusing the Food Stamp Program. Approximately 235,000 retailers and wholesalers nationwide, redeem food stamps. We recommended the redesign of the automated retailer tracking system which would group and compare retailers' redemption activities having similar characteristics in similar environments. In addition, we pointed out the need to develop detailed procedures for review and followup actions on pertinent reports generated by the retailer tracking system. FNS was aware of needed improvements to the system and has taken action to improve the means of identifying retailers that might be abusing the Food Stamp Program.

Wage-Matching

OIG continues to examine wage-matching efforts to identify food stamp recipients that fail to report their total household income to the eligibility workers. Audits in the past have proven that wage-matching is a viable tool of preventing abuse of the Program. Currently, audit efforts are examining wage-matching activities in 12 States. We believe improved wage-matching will make significant contributions in preventing individuals from obtaining improper amounts of food stamps.

RURAL ELECTRIFICATION ADMINISTRATION (REA)

During 1985, we completed audits of the Telephone Loan Program and the Electric Generation and Transmission (G&T) Cooperatives Loan Program. We estimated that REA made over $1 billion in subsidized loans to telephone borrowers who could afford private financing or less subsidized REA financing. These loans will cost the Government over $500 million over the life of the loans. We also found that REA lends to subsidiary companies based on a subsidiary's financial condition without considering the parent company's financial strength and the fact that managerial and financial control are exercised by the parent company. In addition we found that subsidiary companies paid out higher dividends than independent companies or cooperatives thus depleting their capital. This allowed the subsidiaries to remain eligible for subsidized REA loans. REA has agreed to revise its dividend policy.

Also we found that REA approved construction loans of over $3.1 billion, to five of eight G&T borrowers we reviewed, based on power requirement studies that were either outdated or did not fully support the need for the loans. REA has formulated proposed regulation changes to require more accurate and up-to-date power requirement studies.

EMPLOYEE MISCONDUCT

The Department employs over 100,000 people. The integrity of our workforce is essential if we are to achieve greater economy and efficiency in the administration and operations of the Department's programs. During fiscal years 1984 and 1985 combined, my staff devoted over 10,000 workdays investigating such cases. This trend is likely to continue, particularly in those cases involving personnel who are employed either to make loans and collect repayments or to regulate the programs where we serve as inspectors or graders.

Recently the Director of USDA's Office of Personnel joined me in a program to train a number of USDA employees who would be qualified to investigate so-called minor employee misconduct complaints. During fiscal year 1985, we were able to train 78 employees from 17 different USDA agencies who are now available to assist my staff.

AUTOMATED DATA PROCESSING (ADP) SECURITY

The development of automated information processing initiatives within the Department requires a great deal of our resources. The main areas we evaluate are the feasibility and cost effectiveness of proposed projects, the manner of procurement, and design and development of the automated systems to ensure proper controls are in place. Our efforts in this area are mainly preventive.

Non-Federal Systems

With the ever increasing use of computers to process data and manage activities, the security of the data and the equipment used are of great concern. During the year we performed a review of the security over Non-Federal computer systems that process data on the major programs of the Food and Nutrition Service (FNS) administered by State (and local) agencies. In fiscal year 1984, FNS made about $12 billion in benefits available to the State Agencies for disbursement to individual recipients. OIG reviewed 13 Non-Federal computer systems which processed about 20 percent of FNS-funded benefits disbursed in FY 1984. These benefits were disbursed monthly to an average of over 5 million program participants. We found security weaknesses in all 13 systems.

Some of the more serious weaknesses concerned inadequate controls over physical security, thus permitting unrestricted access to the computer hardware, and inadequate software controls which could enable persons to improperly manipulate data and payments. Our analysis of the inherent risks involved (large sums of money; existence of third party beneficiaries; payment of entitlement monies; degree of decentralization) make it apparent that the area is highly vulnerable to fraud, waste, or abuse.

FNS concurred with our recommendations to coordinate with the Office of Finance and Management and the Office of Information Resources Management within the USDA, and the Office of Management and Budget, and other Federal agencies to first establish, and then ensure compliance with, minimum ADP security standards for Non-Federal entities which process Federal data.

Federal Systems

During the year we conducted audits of the security and management of the Kansas City Computer Center (KCCC), Fort Collins Computer Center (FCCC), and National Finance Center (NFC). We found security weaknesses at the KCCC pertaining to access controls, input/output controls, security plans, training, and inspections, and in the area of physical security. In addition, we found that data access controls at NFC and FCCC needed to be strengthened because not all passwords and identification codes had been changed in a timely manner. The Centers generally concurred with our recommendations and have taken or initiated corrective action.

FY 1985 OIG MONETARY RESULTS AND BUDGET REQUEST

During FY 1985 OIG issued 795 audits and 1,223 investigative reports. As a result of our investigations, 570 indictments and 626 convictions were obtained, and 21 suits were filed. Recoveries, collections, savings, fines, restitutions and claims totaled $30 million. The audits resolved during FY 1985 resulted in disallowances and claims of an additional $43.9 million. FmHA, ASCS, and FNS are the agencies with large dollar funding with a higher degree of vulnerability to fraud, waste and abuse in implementation of their programs. As a result, OIG expends nearly two-thirds of its resources in the programs of those agencies. The FY 1987 budget request for the Office of the Inspector General is $46.3 million.

This concludes my statement, I will be glad to respond to questions from the Committee.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

TERMINATIONS AND PHASE-DOWNS

Question: In your statement, you say that program terminations or phase-downs result in an increased workload, rather than a diminished one because of close-out audits and investigations.

a) Does your budget request take into account all the program terminations or phase-downs in the budget for USDA, or would you need additional funds?

Answer: Additional funds would not be required. Audits of closed-out and phased-down programs will be incorporated into our normal audit planning schedule. Through reallocation and readjustment of our resources, adequate audit service will continue to be provided to the Department. The overall program dollars involved and the program's susceptability to irregularities would be factors considered in determining whether or not an audit would be performed. Terminations or phase-downs usually do not have any immediate effect upon our investigative activities because, in many instances, violations committed while a program is ongoing are not reported for months or even years after the program is terminated.

b) If you did plan for these activities, how much of your budget would be allocated to them?

Answer: OIG does not allocate funds to a specific audit or investigation but to the audit or investigative program as a whole.

FmHA CONTROLS OVER RURAL HOUSING INTEREST CREDIT AGREEMENTS

Question: In reviewing FmHA controls over rural housing interest credit agreements, you note that errors at the time of approval were attributable to insufficient controls. Is it possible to determine how much of that situation is due to an inadequate number of employees available to properly process the approvals or renewals?

Answer: A number of conditions contributed to the excessive interest credits granted including FmHA errors in computing income and inadequate FmHA review of information provided by borrowers and employers. These conditions were most prevalent where county employees did not follow established procedures and District Directors had provided little supervision and review of the interest credit agreement process. We did not isolate lack of personnel as a contributing condition. The audit also reported that borrowers and their employers reported inaccurate information or that borrowers did not report all employers. This accounted for $14.2 million of the $32.2 million excessive interest credits. We recommended that FmHA seek cooperation with wage reporting States to obtain wage data to aid in verifying income and employers as we found it to be an effective means of verification.

OFFICE AUTOMATION

Question: For the purposes of this record, please provide a brief, updated status, including the cost-benefit analysis of your office automation project.

Answer: We will have the majority of all equipment deliveries and begin nationwide implementation of the OIG office automation project this year. All OIG equipment currently ordered should be received and operational by mid/late summer. Current leased word processing equipment will be released as these systems become operational and all conversions completed. We expect to perform some system refinements and, depending on the performance of these systems, procure additional processors to support the workload. In addition, all existing microcomputers are targeted to be connected to the new systems, either by direct connection or telecommunications dial-up. There may be other enhancements needed as the system is developed from the initial configuration on the Department contract to the final polished system we foresee. Finally, to reach our goal of overall integration of all OIG computing resources, we expect to tie our IBM System 36 minicomputers together with the office automation equipment.

OIG has obligated $1.7 million (including about $200,000 for our new automated investigative indices retrieval system) for ADP/office automation hardware, software, and training. A total of $1.2 million was obligated in FY 1985. We estimate that $1.0 million will be spent in FY 1986. The total system's life cycle costs is projected to be $6.1 million; our original estimate was $6.6 million.

Our revised Cost/Benefit analysis based upon the new cost estimates and updated agency statistics shows a ratio of 1:4. The derived benefits were reduced as a result of using the OIG FY 1985 monetary results from our audit and investigations of USDA's Programs. Further reductions of projected benefits were as a result of more conservative projections of the impact of redirection of some of our administrative savings for increased audit and investigative applications.

DISALLOWANCES AND CLAIMS

Question: Your statement refers to "disallowances and claims."

a) Please define those terms.

Answer: Disallowances is an incurred cost questioned by the audit organization that management has agreed should not be charged to the Government.

Claims are the disallowed amounts for which management has agreed to seek recovery. Management will establish an accounts receivable for this amount.

b) Do these findings actually save the Government money, or are these merely "paper savings?"

Answer: Disallowances would be considered "paper savings" as collection will not be made. Claims are monetary values that the auditee (agency) has agreed to establish as a collection, unless the agency waives, compromises or reduces the amounts because of post resolution justification. The agency also has the option to redirect the use of the funds.

c) What is the difference in these claims and the claims included in the previous sentence of your statement regarding "recoveries, collections, savings, fines, restitutions, and claims?"

Answer: The $43.9 million in "disallowances and claims" is the result of audits and the $30 million in "recoveries, collections, savings, fine, restitutions, and claims" is the result of investigations.

OFFICE OF THE GENERAL COUNSEL

STATEMENT OF J. MICHAEL KELLY, ACTING GENERAL COUNSEL

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you to discuss the Office of the General Counsel's fiscal year 1987 appropriation request.

FISCAL YEAR 1987 BUDGET REQUEST

For Fiscal Year 1987, we are requesting $17,430,000 in direct appropriation. The FY 1987 request represents 1% less than the FY 1986 current estimate of $17,588,000. The activities previously funded on a reimbursable basis are requested as a direct appropriation in FY 1987.

This budget assumes an FTE ceiling of 385. The $158,000 funding decrease from FY 1986 will be realized through reductions in budgeted discretionary items such as travel, training, supplies, postage, printing and reproduction, and attrition.

Administration

I am pleased to say that the office automation efforts initiated over the last two years have been effected and are in daily use. A telecommunications network connecting word processors in all but two field offices to headquarters allows instant communication of text. This system has also expedited preparation of our Monthly Workload Measurement Report for each field office and division. A quarterly Debt Collection Report is also prepared via the network.

Workload

We anticipate no new program initiatives in FY 1987, and estimate the relative workload distribution among USDA client agencies to remain about the same in FY 1987. While much of the legal work related to implementation of the recently enacted Food Security Act of 1985 will have been completed during FY 1986, the Act is quite comprehensive and we expect USDA's implementation efforts to continue well into FY 1987.

The Office of the General Counsel expects the higher level of staff efforts devoted to servicing, counseling, and debt collection of FmHA loans in 1986 to continue through FY 1987. Revisions in FmHA regulations as a result of statutory requirements and court orders will be completed, permitting more expedited processing of new and backlogged FmHA cases in the field. Funds for the Pilot Project which established seven additional field offices in 1983 to assist FmHA in this area are included in our appropriations request in FY 1987.

The Office of the General Counsel has budgeted slightly more for Forest Service legal services in 1987 than in FY 1986 in anticipation of additional legal work regarding the implementation of 122 new Land Management Plans for the National Forest System. These increased efforts will be offset by slight adjustments in other areas of legal activity in the office.

Mr. Chairman, that concludes my statement. I would be pleased to answer any questions.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

ROLE OF THE GENERAL COUNSEL

Question: I am concerned about the role which "the lawyers at the Department" have been playing in the implementation of farm policy. There have been several instances I know of -- and there may be others which I have not heard about -- where the intent of Congress, in writing a provision in the farm bill, was not followed by the Department. When asked about this, some people who are in policy positions have said, "the lawyers at the Department have told us we have to do it that way."

I can understand your wanting to interpret the law fairly and to protect the Department from potential litigation. My concern is that policy officials who may have attended markups and conference on the farm bill and heard all the discussions concerning these provisions, are being overruled, in effect, by attorneys who are substituting their personal views for the intent of the authors of the legislation. I have even written several letters to the Secretary to clarify our intent on certain provisions, including one on the cotton program which had signatures of 13 Senators. That cotton letter, in particular, has been completely disregarded, and the result is a new policy formulated by counsel rather than by the Congress.

What is your response to these observations?

Answer: The role of the General Counsel's office is, as you suggest, to interpret the law fairly and to give meaning to the plain language of a statute. Where a law, or a section of a law, is plain on its face, there is no need to look to its legislative history for guidance as to its interpretation and implementation. In fact, the cases hold that we may not resort to analysis of a statute's legislative history where the language of the statute is clear on its face. On the other hand, where the law standing alone is unclear, or where it is susceptible of more than a single interpretation, we are compelled to look at the legislative history -- including all committee reports, floor debates, and recorded conference committee proceedings. The Office of the General Counsel attempts in all instances to follow these rules in interpreting the laws enacted by the Congress.

You asked specifically about the Department's interpretation and implementation of the upland cotton provisions contained in section 103A(b) of the Agricultural Act of 1949, as added by section 501 of the Food Security Act of 1985. A letter of March 27, 1986, signed by you and twelve other Senators, expressed concern regarding the 1986 upland cotton program and its requirement that loan deficiency payments be made only to producers who elect not to participate in the price support loan program. That letter indicates your belief the Congress intended to permit producers to obtain deficiency payments on a portion of their production, while placing the remainder under loan. It is our opinion that the statute as enacted cannot be read to permit producers to do both, and we have looked carefully at the provision's legislative history -- and consulted with officials who were present at the Conference Committee's proceedings -- before so concluding. The method of calculation prescribed for loan deficiency payments (i.e., the loan payment rate multiplied by the quantity a producer is eligible to place under loan) strongly suggests that the calculation is singular in nature, and applies to a producer's entire "farm program acreage." Further, language contained in both the Senate committee report (loan deficiency payments may be made "to producers who forgo use of the nonrecourse loan program", S. Rept. No. 99-145, p. 186), and the Conference Committee report (the Secretary may "make payments available to producers who, although eligible to obtain a loan on [upland] cotton, agree to forgo obtaining such loan in return for such payments." H. Rept. No. 99-447, p. 365) lead to the same conclusion. In fact, we have found no legislative history to suggest a Congressional intent that producers be permitted to place some of their crop under loan, and receive deficiency payments under this new authority on the remainder.

FARM BILL vs. APPROPRIATIONS BILL

Question: The 1986 appropriations act for Agriculture, Rural Development, and Related Agencies included $2.7 billion for insured farm operating loans, and the Food Security Act of 1985 (the farm bill) included $1.7 billion for the same program. Your office ruled that the farm bill level prevailed.

In your ruling, there is a statement which says, "...the issue appears to be whether an authorization for an appropriation which passes after an appropriation act has been passed, has the effect of reducing the appropriation to the level of the authorization. If that were the case, we would be constrained to say that the appropriation would govern regardless of when the authorization passed." (Emphasis added).

The farm bill passed the Congress in its final form on December 18, 1985. The Agriculture Appropriations Act, as included in the final Continuing Resolution for fiscal year 1986, was passed by Congress on December 19, 1985. The appropriations bill was, therefore, subsequent legislation. Because the previous Continuing Resolution expired on December 19, the final Continuing Resolution was rushed to the President on the same day of its passage for his signature.

a) If your decision was to be based on the last passed legislation, why was the appropriations bill level not followed?

b) Do you know of any other cases where allegedly conflicting legislation was signed into law in a different order than passed by Congress?

Answer: The references in the OGC opinion to when a measure "passes" or "has been passed" were meant to refer to the date of a measure's enactment -- i.e., the date on which the measure was signed by the President and became law. In this case, the Continuing Resolution was enacted on December 19, 1985, and the Food

Security Act of 1985 was enacted on December 23, 1985. We concluded, however, that -- in both the Continuing Resolution and the Food Security Act -- the language at issue was not in fact an appropriation but was, rather, a limitation upon amounts which may be expended from a revolving fund for Farmers Home Administration insured operating loans during fiscal year 1986. Since neither enactment contained an appropriation for this purpose, and both enactments expressed limitations on amounts authorized to be expended from a revolving fund, we concluded that the language of the later enactment prevailed. We are unaware of other similar circumstances where conflicting enactments have been signed into law by the President in an order differing from that in which they were considered and passed by the Congress.

STAFF-YEAR LEVELS

Question: Your statement says that the budget assumes an FTE ceiling of 385, but the explanatory notes show 388. Please explain. If there is a reduction planned, will it come from headquarters or field offices?

Answer: The Office of the General Counsel's FTE ceiling is 385. This ceiling was established by the Office of Management and Budget. In addition, however, the Department's Budget Office estimates 3 "non-ceiling" FTE's will be used in fiscal year 1986. Non-ceiling FTE's are not charged against an agency's ceiling and represent overtime. Therefore, the 385 FTE ceiling plus the 3 "non-ceiling" FTE's total 388 FTE's.

Fiscal years 1986 and 1987 have the same FTE ceilings (385) and "non-ceiling" FTE's (3). No reductions from 1986 staffing levels are planned for 1987.

WORKLOAD

Question: Please show the percentage of your time allocated to each of the larger USDA agencies, divided into litigation activities and other activities.

Answer: The requested information is listed below, and is based upon OGC's Workload Management Report for March 1986, the latest month for which statistics are currently available. While these figures reflect time allocated to major USDA agencies for a single month, they are representative of the general allocation of legal services performed for such client agencies.

Agency	Litigation	Other	Total
Agricultural Marketing Service.......	3%	3%	6%
Animal and Plant Health Inspection Service.................	4%	3%	7%
Agricultural Stabilization and Conservation Service..............	4%	4%	8%
Federal Crop Insurance Corporation...	1%	2%	3%

Farmers Home Administration	16%	14%	30%
Food Safety and Inspection Service	1%	1%	2%
Food and Nutrition Service	3%	3%	6%
Forest Service	9%	10%	19%
Packers and Stockyards Administration	5%	1%	6%
Rural Electrification Administration	1%	4%	5%
Soil Conservation Service	1%	1%	2%

The remaining agencies serviced by OGC represent less than one percent each in Litigation and Other activities. Litigation activities include administrative, civil, and criminal cases; nonjudicial foreclosures; and acting as Hearing Officer or Claims Adjudicator. Other activities include drafting and reviewing regulations; preparing correspondence, opinions and legal instruments; oral legal opinions given to clients; drafting or reviewing legislation or testimony; as well as conferences, administrative matters, training and supervisory responsibilities.

Question: Other than the FmHA reimbursable agreement discussed below, will you have any reimbursable agreements with other agencies next year?

Answer: The Administration's funding request for the Office of the General Counsel for fiscal year 1987 anticipates no reimbursable agreements with USDA agencies. As explained below, the reimbursable agreement with the Farmers Home Administration for funding of OGC's "pilot project" offices will also not be continued for 1987.

FIELD OFFICES FOR FmHA

Question: I was pleased to see that you plan to retain your field offices which were created to assist Farmers Home Administration field offices in locations which cannot be adequately served by your regional offices.

a) Are any OGC funds used to finance these field offices, or are they financed solely by reimbursement from FmHA?

b) Will your reimbursable agreement with FmHA continue in 1987? If so, how much will FmHA pay for these OGC offices?

c) Have these field offices been beneficial to OGC in reducing the magnitude of your workload?

Answer: No funds appropriated for the Office of the General Counsel have been utilized to staff and operate the six "pilot project" OGC field offices. Since their establishment in fiscal year 1983, all funding has been provided under reimbursable agreements entered into annually with the Farmers Home Administration. This arrangement with FmHA will not be continued into fiscal year 1987. Rather, funding for the continued operation of these offices has been included in the Administration's request for the Office of the General Counsel for 1987. These offices have not reduced the magnitude of OGC's workload, as the FmHA workload has risen substantially during these same years. They have, however, provided some additional resources which have been extremely helpful, and have allocated those resources in a manner which has been beneficial both to FmHA and to OGC.

COMMODITY CREDIT CORPORATION PAYMENTS

Question: In the general provision portion of our bill, the budget proposes striking a portion of section 605 which requires that a person be convicted of a marijuana offense (growing, cultivating, harvesting, processing or storing) before production or other payments are withheld. It was the Committee's understanding that section 605 was unconstitutional without the phrase which the budget proposes to strike, because it would supposedly allow payments to be withheld from those simply suspected of illegal activity.

In USDA's opinion, is section 605 constitutional without this phrase?

Answer: The Office of the General Counsel is of the opinion that section 605 of the bill is not unconstitutional whether or not it contains the language that is proposed to be stricken. We have not viewed similar provisions which were contained in prior appropriations acts and which did not require convictions as being unconstitutional. This is not to say that the provisions of section 605 could not be applied in a manner that is unconstitutional, whichever version of the language may be adopted. We note parenthetically that section 1764 of the Food Security Act of 1985 prohibits the provision of benefits under a number of USDA programs to persons convicted of participating in illegal drug activity. The Congress may therefore conclude that it is unnecessary to retain any language addressing this issue in the appropriations measure for USDA for fiscal year 1987.

Economic Research Service

Statement of John E. Lee, Jr., Administrator

Mr. Chairman and members of the Committee, I'm glad to have this opportunity to appear before you to present our proposed budget for 1987.

Need for Economic Analysis

When you are faced with cutting Federal programs to achieve reductions in the Federal budget deficit, the need for economic analysis is critical. One of our main purposes is to provide economic analysis and data that are essential inputs into economic decisionmaking--at the national policymaking level as well as at the firm and individual levels. In fiscal year 1986 USDA's programs involve over $70 billion per year in either direct outlays or in loan guarantees. Those increasingly complex and interrelated programs require rigorous analysis. ERS's research and analytical programs that undergird decisions on USDA's programs are currently funded at a level that is about one-twentieth of one percent of the overall program level of the Department.

Mission of the Economic Research Service

U.S. agriculture and rural America have gone through changes of unprecedented magnitude in the past four decades. Agricultural markets have been internationalized. Rural America is no longer primarily agrarian. Farms are fewer and larger. Highly capitalized farms using sophisticated technology have replaced the millions of smaller, capital-short family farms that once dominated U.S. farming.

Those changes have far-reaching implications for agricultural policy, raising questions about the appropriate role and objectives of government programs in agriculture, natural resources, and rural America, and about how those increasingly complex programs affect the efficiency and profitability of farm firms and rural enterprises and the well-being of rural residents.

Providing an economic and social science information base for addressing those questions--indeed, for ensuring that the important questions are raised--is the primary mission of the Economic Research Service.

Programs of the Economic Research Service

Agriculture and Rural Economics Program

The Agriculture and Rural Economics Program focuses on national and regional rural and agricultural trends and conditions. The Program covers a broad range of topics, including financial problems in the farm sector; import competition affecting agriculture and rural manufacturing; how the Nation's macroeconomy (the Federal budget deficit, deregulation of financial institutions, and proposed changes in Federal income taxation) impacts on agriculture and rural America; differences in economic performance between urban and rural areas; rural population growth; persistent rural poverty; the industrial restructuring of the rural economy (especially the growth of the service sector); agricultural labor, credit, and finance and their structural implications for agriculture and the rural economy; and immigration and the market for agricultural labor.

International Economics Program

The International Economics Program is the primary national and international source of expertise, data, models, and research on the agricultural economies and policies of foreign countries and their agricultural trade and development relationships with the United States. The Program covers the economic, technical, and political factors that affect agricultural trade among countries, including weather and technical production systems; commodity and financial market structure, efficiency, and performance; and foreign government policies on production, consumption, finance, and trade.

Domestic Food and Fiber System Program

The Domestic Food and Fiber System Program includes current market intelligence, policy analysis in support of public decisionmaking, and economic research on the U.S. food and fiber system. The Program covers crops, livestock, fruits, vegetables, and sweeteners; farm inputs, costs, and returns; farm and food marketing; farm and food technology impacts; and food consumption and prices.

Natural Resource Economics Program

The Natural Resource Economics Program covers agricultural resources, with primary emphasis on soil, water, land, and environmental issues. The research encompasses analyses of supply of, demand for, and prices of agricultural resources; agricultural resource conservation and environmental programs; and agriculture's effects on resource use and the natural environment.

Some Examples of What the Economic Research Service Does

Farm Financial Conditions

Don Paarlberg, a former chief economist at USDA, said ERS has a responsibility to provide an "honest mirror" for rural America. To that end, ERS monitors financial conditions in the farm sector and tries to provide a balanced perspective on those conditions. ERS has given high priority to compiling better information on the number, location, and characteristics of farmers and lenders experiencing inordinate financial stress.

As a result of our surveys and analyses, it is now rather common knowledge that the "financial crisis" is heavily concentrated in about 13 percent of our producers. Those farmers hold about 40 to 45 percent of operator debt, tend to be cash grain and livestock producers, and live disproportionately in the Corn Belt, Lake States, Great Plains, and parts of the Delta and Southeast.

We also know that most of those stressed producers incurred large debts for a variety of reasons--drought, farm expansion, etc.--and needed either a continuation of rapid inflation or rapidly rising commodity prices to remain viable. A dramatic deterioration in global economic conditions reduced prospects for exports, hence prospects for rapid growth in farm incomes, hence the perceived value of land. With the turnaround in land values, the heavily-leveraged producers were caught out on a limb.

Paradoxically, net cash income--the measure that best reflects debt repayment ability for the sector as a whole--has been on a historically high plateau since 1973, was a record high in 1984, followed by a new record high in 1985, and will likely continue to be near those levels in 1986. The high incomes reflect larger volumes of production, lower production costs, and much larger Federal payments that combined to offset lower commodity prices. The "average" household income from farm (84 percent) and nonfarm (16 percent) sources of farms with sales of $100,000 to $500,000--the mainstream commercial family farms--was $55,000 in 1984. Yet, within that group, some are hopelessly in debt and faced with the loss of their farms.

Those seemingly incongruous observations reflect the diversity of conditions in agriculture today and present a confused picture to the public and to policymakers. ERS has stepped up its efforts to sort out that confusion and to provide more useful information to policymakers. If ERS does not do this, it simply will not be done.

The tenuous financial condition of many farm lenders is underscored by the findings of ERS analysts that a disproportionately large share of farm operators' debt was owed by the farms experiencing financial stress. Of those farm loans that were not fully serviceable in 1985, 32 percent were owed to the Farm Credit System, 18 percent to the Farmers Home Administration, 26 percent to commercial banks, and the remainder to individuals and other lenders. Agricultural bank failures numbered 7 in 1983, 31 in 1984, and 70 in 1985. Nonetheless, an ERS study of the incidence and consequences of rural bank failures found that few rural counties experienced loss of banking services because of a bank failure. In most cases, the failed institution reopened under new ownership and continued providing banking services to the community. Nor do the problems of agricultural banks appear to pose any major threat to the viability of the overall banking system.

Demand for U.S. Agricultural Exports

ERS economists evaluated the more significant policies employed by the United States and other major trading countries that affect U.S. exports. Commodity price and income policies, trade policies (such as embargos, subsidies, credit, and food aid) and the effects of exchange rates and debt repayment options were included. The costs of domestic and trade policy interventions, as measured by government expenditures on agriculture, were compared for the United States and other countries. Japan and the United States are ranked at the top of the list. Price and income supports comprise the largest amount of assistance for both countries. Much of the support for agriculture, however, is through other means. The European Community (EC) and Japan can raise prices to producers simply by restricting imports. The direct budgetary costs of those interventions may be negligible but the subsidy effect very large. ERS researchers found, however, that apart from the EC, U.S. competitors are providing less assistance to their producers in the form of direct producer subsidies than is commonly perceived to be the case.

In 1985, ERS initiated a multiyear study on the competitiveness of U.S. agriculture vis-à-vis agriculture in other countries. ERS economists outlined the issues and problems concerning U.S. competitiveness in world markets. Exporting countries' trade and agricultural policies were identified. A large data base documenting those policies was developed to assess the trade barriers and export subsidies by U.S. competitors.

Agriculture in an Open Economy

ERS researchers found that the linkages between the farm economy and the national economy are so close that conditions beyond the farm gate can affect agriculture as much as farm programs. Business cycles are no longer confined to national economies; they are international. Since farm exports depend so heavily on economic conditions abroad, global business cycles have a major effect on the demand for U.S. farm products. The net result of those developments is that national and international economic forces influence farmers' production costs, the demand for their products, their competitiveness in domestic and international markets and, ultimately, their income levels and wealth.

The importance of agricultural trade to the economy as a whole is illustrated by other information compiled by ERS: each dollar earned from agricultural exports stimulates another $1.37 of output in the U.S. economy; approximately 80 percent of that additional economic activity accrues to the nonfarm sector; over 1 million jobs are related to U.S. agricultural exports.

Policy Analysis

ERS conducted analyses for Department officials of the economic effects of the suspension of prorates on navel orange prices, producer incomes, handler marketing practices, and marketing orderliness. Another analysis considered the implications of a continuation of the navel orange prorate suspension for production, utilization, and prices, and assessed the implications for growers, handlers, and consumers.

A Congressionally-mandated study by ERS provides an example of an alternative dairy price-support mechanism that would have performed better than parity during the past decade. The mechanism consists of three major parts: an index of weighted prices of milk production inputs and the consumer price index, a longrun adjustor of the 10-year moving average of real prices, and a shortrun adjustor that slides over a discretionary range based on the level of recent surplus. That study found that use of that alternative mechanism probably would not have eliminated either the price volatility of 1973-75 or the surplus of the early 1980's. But the magnitude of both could have been greatly reduced. The mechanism would have required significantly higher support prices during the price trough between mid-1974 and mid-1975, which likely would have curbed the sharp market price response of late 1975. The mechanism would have raised support prices much less at the start of the 1979/80 and 1980/81 marketing years. Since October 1981, the minimum support level would have been virtually frozen at a level well below actual support levels. Both a quicker response to the developing surplus and lower support prices would have held down surpluses during the early 1980's.

In another mandated study, ERS researchers concluded that, among selected States, release of farmer-owned reserve stocks appeared to materially lower the State's monthly grain prices relative to the U.S. average. That situation was limited to corn in Nebraska and Kansas and wheat in Oklahoma and Washington. The researchers also concluded that adjusting the 5-day moving average prices based on production-weighted and reserve-weighted daily prices as alternatives did not differ greatly from the simple average mechanism currently used by the Agricultural Stabilization and Conservation Service to determine release status.

Natural Resources

In 1985, ERS economists closely monitored the effects of high interest rates and reduced credit availability on U.S. agricultural resource values and uses. The annual ERS Agricultural Land Values Survey revealed that farmland values declined 12 percent from April 1984 to April 1985. That drop was the largest since the early 1930's. The largest declines occurred in the Corn Belt, Lake States, and Northern Plains, where farmland values dropped by 20 percent or more.

An ERS study of USDA erosion control programs revealed that economic benefits of protecting soil productivity and preventing offsite damages are less than the public and private expenditures for erosion control on cropland. The benefit-cost ratio exceeds 1.0 on cropland eroding at over 15 tons per acre per year. No appreciable differences were found in the benefit-cost ratios of the three major erosion control programs of USDA. Offsite benefits account for about two-thirds of total benefits from cropland erosion control, indicating significant public benefits from soil conservation programs. Improvement in conservation program efficiency could be obtained by redirecting resources to land eroding at over 15 tons per acre.

A variety of behavioral and programatic factors were identified as sources of potential improvement in the performance of soil conservation programs. Based on analysis of landownership data from ERS's Resource Economics Survey, ERS economists have challenged the conventional view that farmers are more concerned about erosion on land they own than on land they rent. Conservation management practices used by farmers on rented land compare favorably with those on owned land. The researchers conclude that leased cropland should not be treated differently from owned cropland in the design of public soil conservation policy.

Targeting USDA erosion control efforts increases the effectiveness of Federal investments in erosion control programs. Farmers increased their use of SCS technical assistance and ASCS cost-sharing in four States targeted by USDA in 1981-82. The rate of adoption of erosion control practices, especially conservation tillage, was accelerated in all four States. Reductions in soil loss followed. Long-term agricultural productivity increased in three of the four States. Use of variable cost-share rates, based on the amount of erosion reduction achieved, has good potential for increasing the effectiveness of public conservation expenditures.

ERS analyzed various policies that were proposed for the combined purposes of conserving soil and reducing surplus commodity production. Long-term acreage retirement and conservation-oriented commodity programs have potential for increasing soil conservation while reducing surplus crop production. Commodity programs have tended to discourage conservation. Retirement of land based only on the criterion of having the highest erosion rates would save the most soil but cost the government more than other retirement options. Retirement of surplus corn acres targeted to highly erodible land could be cost-effective for both conservation and commodity program objectives. Cross-compliance would not promise widespread conservation benefits and might reduce commodity program effectiveness, but compliance incentives and modest changes in commodity programs could complement other soil protection measures.

ERS analyzed a variety of options for implementing a conservation reserve program, focusing on their effects on both soil conservation and farm program costs. The estimated economic effects of conversion are very sensitive to expectations regarding crop yields and prices. However, conservation reserve programs seem likely to reduce total government costs by providing a less expensive way to retire cropland acreage.

An ERS study concluded that removing pesticides with alleged environmental and safety risks from the market could increase U.S. agricultural production costs, crop prices, farm incomes, and consumer expenditures for food. The effects will not be uniformly distributed. Farmers relying on the affected pesticides could be faced with using higher cost pest control alternatives. Banning all materials in a group of pesticides would have the most severe effects, while banning an individual pesticide would not significantly affect crop yields or production costs.

ERS evaluated the economic impacts of the Boll Weevil Eradication Program conducted on 40 thousand acres of cotton in North Carolina. Cotton insect control expenditures dropped from an average of $51 to $17 per acre. Overall, the Boll Weevil Eradication Program increased profits for cotton growers. Cost-shared boll weevil eradication efforts now are proceeding in the Carolinas and Georgia.

1987 Budget Estimate

We propose a budget of $45.5 million for 1987, which is a decrease of $552,000 from our 1986 appropriation prior to the 4.3-percent sequester. Our staff ceiling is reduced by 30 staff-years. We plan to minimize the impact of that reduction on our program through greater efficiencies to be achieved by streamlining management and increasing computerization of our data bases and analytical models.

The main point I want to make today is that an increasingly complex agricultural sector (due to its links to trade and the global macroeconomy) requires rigorous economic analysis.

Thank you again for this opportunity to testify before this Committee. I will be pleased to try to answer your questions.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

FARM INCOME

Question: In your statement, you say, ERS has stepped up its efforts to sort out the confusion created by "seemingly incongruous" statistics regarding the record high farm income but record high debt. How do you plan to do that?

Answer: We are often asked how can farmers be in financial difficulty, with many losing their farms, if we have a record level of net income? ERS research has demonstrated that debt is highly concentrated, with a small percentage of operators holding large percentage of debt. This research has also shown that there is not a close relationship between the distribution of net income and debt. Thus, while high levels of income and debt may seem incongruous, they are not inconsistent. ERS has expanded its research effort directed at providing more information about the characteristics of farmers holding debt and their earnings. This will provide a broader perspective about the current financial status of farm operators.

EMBARGO STUDY

Question: What is the status of the study which Congress asked that you perform regarding the effects on farmers of past embargoes or suspension of exports?

Answer: ERS, in order to bring the broadest range of points of view and the best possible analytical talent on this problem, has formed a team of USDA and university economists to conduct the study. Many approaches are being used, including simulation modeling, statistical analysis of historical data, and interviews of policy officials to reconstruct actual policy responses in the United States and competitor countries.

The principal focus of the study is grain and oilseeds, with minimal coverage of other commodities. A detailed project outline has been agreed upon and participants are actively pursuing the research on their sections. A first draft will be completed in June, with July-September devoted to critique, rewriting, and further peer reaction, and the final manuscript is to be available September 30, 1986.

SOIL CONSERVATION

Question: In the past, the Administration has defended its cuts in soil conservation programs claiming that farmers are now beginning to understand that it is cost-efficient for them to implement soil conservation measures with their own funds. According to your statement, however, an ERS study now shows that the benefits are less than the cost for erosion control, except for cropland eroding at over 15 tons per acre per year.

Does this study refute the argument referred to above?

Answer: Our study indicated that the economic benefits of protecting soil productivity accounted for roughly one-third of the erosion control benefits associated with major USDA soil conservation programs. Public offsite benefits, such as enhanced recreation and reduced water treatment costs, accounted for the other two-thirds. Thus, the public is a significant beneficiary of these conservation programs. We also found that targeting the USDA conservation programs to cropland eroding at over 15 tons per acre per year would significantly increase the cost-effectiveness of these programs to both farmers and the public. About 30 percent of the expenditures associated with public conservation programs were directed at lands eroding at less than 5 tons per acre. Thus redirecting program expenditures, even with a reduction of public funds, could increase the erosion reduction achieved.

It is important to note that most soil conservation investments are undertaken by farmers independent of public soil conservation programs. Conservation tillage is one of the most effective and cost-efficient conservation practices, which is being widely adopted with limited public program support. Likewise, roughly half of the structural and management practices are funded by farmers.

Finally, the Conservation Reserve Program has the potential to substantially reduce erosion and make it cost-efficient for farmers to maintain highly erodible cropland in grasses and trees.

STAFF-YEARS

Question: According to the staff-year summary, it appears that you are transferring eight permanent positions from field staff to headquarters staff. Your field staff object on the "Classification by Objects" table shows a reduction, but so does the headquarters staff. Furthermore, your statement indicates a reduction of 30 staff-years. Please explain this.

Answer: Our total staff year ceiling was reduced by 30, of which 15 will come from the field -- 7 by eliminating vacant positions and 8 by transferring the incumbents to Washington to fill vacancies here, thus creating an additional 8 vacant field positions which will then be eliminated. This is consistent with the long-term phase-down of field staff announced three years ago.

OTHER SERVICES

Question: To what is attributed the increase in "Other Services?"

Answer: The increase of $381,000 in "Other Services" is based on the OMB estimate of a 4.1% rise in non-salary costs, and therefore is a current services estimate.

LANGUAGE CHANGE

Question: You proposed to delete bill language requiring at least $145,000 to be expended for analysis related to foreign production and marketing techniques, and justify that by saying that it is redundant. It seems to me that "analyses of supply and demand

... in foreign countries and their effect on prospects for United States exports" would not necessarily include "full and complete information on methods used by other countries to move farm commodities in world trade on a competitive basis."

a) Do you disagree?

b) Are you assuring the Committee that such "full and complete" information will continue to be compiled and analyzed?

Answer: Yes, analyses of supply and demand include all factors affecting trade, including the public policies of foreign countries and practices of their private sectors that affect competition.

Yes, I assure you that is our objective. The wording change was proposed by the Office of Management and Budget's legal counselors for the sole purpose of eliminating redundant language. Absolutely no change in the intent of the original words is intended.

OFFICE OF AGRICULTURAL LABOR AFFAIRS

Question: Why was the Office of Agricultural Labor Affairs transferred to ERS?

Answer: According to the Secretary's Memorandum 1020-21 (July 17, 1985) the transfer was made "in order to strengthen the effectiveness of the Agricultural Labor Affairs Programs." That program consists of the "developing a systematic agricultural labor policy to ensure an adequate and productive supply of labor to facilitate agricultural production and to ensure an adequate level of income and quality of life for people employed in Agriculture."

LIVESTOCK COST OF PRODUCTION SURVEY

Question: ERS researchers recently completed two studies based on data gathered in the 1981 Livestock Cost of Production Survey. What good is 1981 data in 1986, especially in regard to costs of production?

Answer: Two ERS studies, published in FY 1985, used data obtained from the 1981 Cost of Production Survey. The studies were designed to make indepth use of survey data going beyond the immediate reporting of results. The initial survey results were incorporated into cost of production budgets and estimates for 1982 as well as other published studies that used those budgets. The 1981 survey provided basic structural information on the livestock industry unavailable elsewhere and will be valuable for many years in providing a benchmark data set on the structure, efficiency of operation, and production practices of livestock operations. The studies referred to in the question utilized basic statistical information provided by the 1978 and 1982 Census of Agriculture as well as the 1981 Cost of Production Survey to analyze long-term changes in basic structural and economic relationships. Understanding those underlying forces makes analysis of current cost of production information more insightful and valuable in assessing the future viability of Agriculture. The most recent Cost of Production Survey to obtain livestock data was conducted in March, 1986.

ERS BROCHURE

Question: You have published a professionally-designed and attractive brochure entitled, "The Economic Research Service in 1986."

a) How much was spent on that brochure?

b) What is the justification for this publication?

Answer: Photocomposition and printing costs were $2,723. The text is a spinoff of our annual plan of work, and was not prepared for the sole or even primary purpose of the brochure. Therefore, the salary costs of text preparation are not attributed to the brochure but rather to the planning process.

It is used as part of a recruitment package to familiarize potential employees with the mission of Economic Research Service. It is also used as a means of exchanging information with our research colleagues in universities and other research institutions on our current research agenda and priorities.

NATIONAL AGRICULTURAL STATISTICS SERVICE[1]

STATEMENT OF WILLIAM E. KIBLER, ADMINISTRATOR

Mr. Chairman and members of the Committee, it is an honor to appear before this distinguished Committee to again represent the Statistical Reporting Service (SRS). The Committee's recognition of the need for a strong agricultural statistics program and your continuous support are appreciated.

The SRS administers the USDA's program of collecting, compiling, and disseminating current national and State agricultural statistics. Research designed to improve the statistical methods and techniques used to produce agricultural statistics is also conducted. In addition, SRS performs reimbursable survey work for other Federal, State, and producer organizations.

Statistical data developed by SRS on the Nation's agriculture are essential for the orderly development of production and marketing decisions by farmers, ranchers, and other agribusinesses. These agricultural data series are also used to monitor the everchanging agricultural industry for formulation and administration of agricultural policy relating to farm program legislation, commodity programs, agricultural research, and related activities.

Fiscal Year 1987 Budget Request

The fiscal year 1987 budget request is $59,712,000. This request includes an increase of $450,000 for continuation of the shift of major crop surveys to probability-based procedures. Additional increases include $150,000 for improving the Crop Reporting Board (CRB) procedures through establishment of an expanded data base environment and $503,000 for increased operating costs. Other budget changes include a decrease of $50,000 for reduced frequency of surveys on prices paid for building materials and marketing containers.

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[1] Subsequent to the filing of this statement, the official name of the agency was changed from the Statistical Reporting Service to the National Agricultural Statistics Service.

Major Activities of the Statistical Reporting Service (SRS)

The primary activities of the SRS are the collection, summarization, and analyses of data and publication of accurate and reliable agricultural forecasts and estimates. Thousands of farmers, ranchers, agribusinesses, and others voluntarily respond to nationwide surveys about crops, livestock, and other agricultural activities. These surveys are supplemented by field observations, objective yield counts and measurements, and other administrative data to provide reliable information. Annually, estimates for about 120 crops and 45 livestock items are published in about 300 reports prepared by SRS's CRB.

The agricultural production and marketing data that are developed and published by SRS include: number of farms and land in farms; acreage, yield, and production of grains, hay, oilseeds, cotton, tobacco, fruits, vegetables, floriculture, and specialty crops; stocks of grains; inventories and production of hogs, cattle, sheep and wool, goats, catfish, poultry, eggs, and dairy products; prices received by farmers; prices paid by farmers for inputs and services; cold storage supplies; and other data related to the agricultural economy.

The SRS estimating program is conducted through 44 State Statistical Offices (SSO's) servicing all 50 States. All of these SSO's are operated under cooperative funding arrangements with State Departments of Agriculture and/or Land-Grant universities. This arrangement efficiently serves the agricultural data needs at both the State and Federal levels and eliminates duplication of effort. Twenty of the SRS State offices are physically located in State office buildings. These beneficial colocations provide increased service and additional agricultural data for State and local needs.

A research program is conducted to improve the statistical methods and techniques used in developing agricultural statistics. This research is directed towards improved sampling, yield forecasting, and survey techniques.

Research under the remote sensing program is continuing to increase the accuracy of domestic and foreign crop acreage and land cover estimates.

The SRS also conducts surveys on a reimbursable basis for other Federal, State, and private agencies or organizations. Our existing survey capability can provide these services much more efficiently than each agency conducting its own surveys. In addition, technical assistance in the development of agricultural estimating programs in foreign nations is also conducted on a reimbursable basis.

The SRS periodically seeks input on data needs and priorities from data users through individual contacts, meetings with commodity groups, CRB briefings, and regional data user meetings. The Agency has made many adjustments in its program in response to suggestions made by data users indicating changes are needed. Users support the policy that statistical efforts should continue to place emphasis on quality over quantity. However, requests continue for expanded detail, wider geographic coverage, more frequent reports, and new data series.

A review panel of experts from universities and the private sector attended the spring 1985 Data User Meetings as part of its review of the Department's statistics and economics reporting programs. The panel's report was released in June 1985 and provided 48 recommendations of which 39 specifically related to SRS. Most of the recommendations were consistent with points addressed by other task groups and the recommendations in the 1983 SRS Long-Range Plan. SRS has already adopted eight of the panel's recommendations, six others will be implemented this year, and background studies are underway for twelve more. Several of the recommendations undergoing background study will be implemented during 1987.

Plans are underway to reinstate several surveys eliminated during the fiscal year 1982 program modifications. A limited series of estimates for white wheat will be initiated in 1986 for the three Northwestern States and dry peas and lentil estimates will be initiated in three States with the 1986 fall acreage and production survey.

Fiscal Year 1987 Plans

The SRS Long-Range Plan contains a recommendation to convert major surveys to probability-based procedures including the crop acreage surveys. The review panel also concurred with this recommendation. An increase of $450,000 is requested to continue the SRS effort started in 1985 to accomplish this objective. These funds would implement the second phase of a 3-year program to place all major crop surveys on a probability basis.

An increase of $150,000 is requested to improve CRB procedures. This increase would allow SRS to improve the CRB capability to effectively evaluate all survey components and auxiliary information through establishment of an improved data base environment. In addition, a research and analysis effort will be undertaken to develop and implement composite estimators and time series analysis procedures that have been tested in research trials. Data users are becoming more sophisticated with their own statistical techniques and understand the need for statistically defensible and repeatable CRB procedures.

The budget request includes $503,000 for increased operating costs. These resources are needed to maintain the core program because of increased costs incurred for travel, postal rates, communications services, supplies, equipment, machine maintenance, staff transfers, and ADP services.

A decrease of $50,000 in obligations will be realized by the reduction in frequency of the prices paid by farmers for building materials and marketing container surveys. This reduction in frequency would not adversely affect the usefulness of the prices paid data series.

This concludes my statement, Mr. Chairman, and I will be happy to respond to your questions.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

PROBABILITY-BASED SURVEYS

Question: Included in your budget request is an increase of $450,000 "for continuation of the shift of major crop surveys to probability-based procedures." Please elaborate.

Answer: With funding available to date, plus funding from the probability grain stocks survey which was in place, the Agency has been able to institute probability crop acres and production surveys for 27 States in June, September, and December. Additional funding is needed to expand to the 48 conterminous States for four acreage and production surveys each year: March, June, September, and December.

OPERATING COSTS

Question: You are also requesting a $503,000 increase for increased operating costs. Could you provide some details to justify that, especially in light of the fact that virtually all other agencies are reducing their operating costs?

Answer: These resources are needed to maintain the core program because of increased costs incurred for postal rates, communications services, supplies, equipment, machine maintenance, staff transfers, and ADP services. We have absorbed 90 percent of the inflation costs over the last 6 years (1980-85). The Agency did not receive any allowances for increased operating costs in FY 1984, 1985, or 1986. This has made it increasingly difficult to maintain the current program even though inflation rates have been reduced significantly. The Agency cannot continue to absorb these increases without reducing its current program work.

PRICES PAID FOR BUILDING MATERIALS

Question: Why does an agency of the Department of Agriculture conduct a survey on prices paid for building materials?

Answer: The prices paid series reflects the average prices paid by farmers for items used in the production and maintenance of the farm operation. These prices reflect the average prices of items farmers actually purchase. The Agency had discontinued series in the past, such as prices paid for clothing and food, when it could be shown that farmer's expenses were not different than other data series which cover the total population. It is felt that farmer's expenses for building materials are not properly covered by any other data series.

ECONOMIC AND STATISTICS REVIEW PANEL

Question: Generally, what types of changes were recommended to you in the Panel's report from the 1985 Data User Meetings?

Answer: The Secretary's Economic and Statistics Review Panel suggested some adjustments in release dates which were implemented for 1986. The Panel recommended that midyear surveys be conducted slightly later to reduce the amount of planting intentions in the planted acreage report and that State level data be included in the midyear cattle report. The Agency plans on adjusting midyear survey dates for 1987 and is working on a Federal Register notice which addresses the cattle recommendation. Some suggestions, such as more frequent hog farrowing surveys and two acreage planting intentions surveys, do not seem possible with current budget levels.

STAFF-YEAR REDUCTION

Question: From what areas of activity will the reduction in staff-years come? Will there be RIF's?

Answer: Staff-year reductions are being accomplished through attrition and by hiring on a very selective basis, filling only critical vacancies. This policy, although successful in reducing staff-years, has put some strain on all our units. The staff cannot be stretched indefinitely without some reduction in the quality of our products. Our staff-years will be reduced without any RIF's.

Question: How do you justify cutting staff while increasing your request for operating expenses by $503,000?

Answer: Increased automation, streamlining of management support, and cooperative agreements for research and data collection activities have been used to reduce staff requirements. However, ADP usage and costs are increasing because of our new Integrated Survey Program designed to improve data quality and expanded automation to offset staff-year cuts. The Agency also makes extensive use of mail and telephone surveys. The cost of postal rates and communication services to maintain the core program continue to rise.

PROGRAM MODIFICATIONS

Question: In February, you announced that NASS is modifying its estimating programs in favor of directing more resources toward maintaining high-quality statistics.

a) What will be the ramifications of that decision?
b) In this time of deregulation, why are you discontinuing your report on telephone and electric service cost? Has this been a rural survey or a nationwide survey?

Answer: a) That decision has allowed the Agency to maintain the present sample sizes and quality of the remaining surveys and reports. Where numbers of States covered were reduced for reports such as for weekly broilers, monthly milk production, and monthly egg production, the remaining States still cover more than 90 percent of the Nation's production of these commodities. Where frequency of reports were reduced, such as for some grain stocks and crop production forecasts, the benchmark acreage, production, and carryover stocks reports have been maintained at the full quality levels.

Answer: b) The Agency felt resources could be used better in other surveys as there currently are other sources of this type of information. Also, it has been noted that there is no significant difference between the electric cost per unit on farms versus nonfarm households. The Telephone and Electric Survey was a nationwide rural survey, with mailing lists developed by each State Statistical Office.

WORLD AGRICULTURAL OUTLOOK BOARD

STATEMENT OF JAMES R. DONALD, CHAIRPERSON

Mr. Chairman and Members of the Committee, it is my pleasure to appear before you today to discuss the fiscal year 1987 budget request of the World Agricultural Outlook Board.

Overview

The World Agricultural Outlook Board (WAOB) plays a critical role in the U.S. Department of Agriculture's (USDA's) ongoing effort to ensure that its commodity information system responds to today's rapidly changing world agricultural sectors. The purpose of the WAOB is twofold: to provide the most accurate, objective, and timely economic intelligence on worldwide developments which influence U.S. agriculture; and to speed the flow of that information to producers, consumers, policymakers and the general public.

WAOB's main function is to coordinate and review for accuracy and consistency all USDA estimates and analyses relating to international and domestic commodity supply and demand conditions. WAOB maintains liaison with international organizations, such as the United Nations' Food and Agriculture Organization, and domestic agencies, such as the Commodity Futures Trading Commission.

WAOB is the Department's focal point for weather and climate information and weather-based impact assessment; these monitoring activities within USDA are coordinated by the WAOB Chairperson. Remote sensing activities in USDA also are coordinated by the WAOB Chairperson. Space sensors and ground-based sensors which comunicate through space relay systems have the potential to improve the accuracy and timeliness of earth resources data and crop condition information now collected on the ground.

Specific Functions and Progress

WAOB has continued to improve its ability to integrate information from the Department's world agricultural intelligence system. WAOB chairs the Interagency Commodity Estimates Committees (ICEC's) and seeks to expand each ICEC's analytical role in current condition and impact assessment. These committees include representatives of the Economic Research Service (ERS), Agricultural Stabilization and Conservation Service (ASCS), Foreign Agricultural Service (FAS), Agricultural Marketing Service (AMS), and WAOB. All committee members are USDA professionals with responsibility for developing official estimates of supply, utilization, and prices for the major agricultural commodities. It is through the interagency membership of these committees that the various USDA agencies work together in a coordinated effort. Development and use of new analytical tools and evaluation of forecasting performance has become an ongoing responsibility of each committee.

Weather, as much as any economic or policy development, continues to be a significant and most unpredictable variable underlying agricultural production and prices. Consequently, USDA places a high priority on incorporating weather-based impact assessment information into all analyses. The focal point is the Joint Agricultural Weather Facility (JAWF), operated jointly by the Board and the National Oceanic and Atmospheric Administration (NOAA). This facility, located in the South Agriculture Building, hourly monitors and assesses global weather events and their probable impact on agricultural output. JAWF analyses are a key ingredient in much ICEC work.

Key agricultural areas in every major producing country, including the United States, are identified by JAWF, and meteorological data from relevant weather stations around the world are analyzed daily relative to the stage of crop development. High-speed computer systems are used to process, analyze, and disseminate information for public distribution, primarily through the Weekly Weather and Crop Bulletin which is published by JAWF/NOAA.

In addition to regular briefings and reports, JAWF provides special alerts when critical weather events may affect U.S. or world agriculture. This early warning capability diminishes the likelihood that farmers and other participants in the agricultural system would be caught off guard by a foreign crop failure or some other significant global weather-related event. This system was of crucial importance in the past year to policymakers in USDA, other members of the Administration, and the Congress, with assessments including the impact of good weather on Soviet grain production, the effects of the Florida freezes on citrus production and severe drought's role in reducing Brazilian soybean production.

WAOB continued a program started in 1979 to improve the quality and timeliness of USDA's outlook forecasts. The World Agricultural Supply and Demand Estimates report (WASDE), the only report published by WAOB, was improved significantly last year when major elements of the World Crop Production report were incorporated into it. The WASDE is now the only monthly global lockup report, and it is released on the same day as U.S. crop reports. The Foreign Agricultural Service still publishes a world production report as an expansion of data included in the supply and demand publication. However, by integrating major facets of both reports and releasing the world data concurrently with domestic reports, WAOB responded to the preference of users to receive maximum commodity information on a timely basis while minimizing potential repeated market reactions caused by frequent release of sensitive information throughout the month.

Recent Activities

The Crop Reporting Board of the Statistical Reporting Service and the WAOB continued co-location in a single lockup facility to maximize security conditions for compilation and analyses of world crop data and supply/demand estimates. This physical arrangement with the Crop Reporting Board facilitates interaction between domestic and international assessment activities and eliminates the movement of highly sensitive data between two separate lockup areas.

While striving to enhance analytical capability, WAOB recognizes that the demand for rapid information dissemination will continue to expand. Increasingly, improved technologies are being used to speed the flow of information. The principal objective is to place the World Agricultural Supply and Demand Estimates report into the hands of farmers and other users as quickly and effectively as possible. WASDE is now transmitted electronically upon release at 3 p.m. to a central USDA system that can forward it to all interested users, greatly broadening the potential for report dissemination. Also, the report summary is ~~now being~~ sent electronically to our embassies and trade offices around the world to keep U.S. agricultural attaches, counselors, and trade representatives current with the very latest information on U.S. supplies and prices.

As part of its effort in information dissemination, WAOB again directed USDA's annual Agricultural Outlook Conference, the 62nd in USDA history. About 800 representatives of government, agribusiness, academia, and the press attended the December conference, which afforded major emphasis on the agricultural outlook for 1986 and the implications of new farm legislation. Many aspects of the conference were streamlined to make it more economical to produce and to attend.

Budget Request

Our total budget request for fiscal year 1987 is $1,680,000. This represents a net increase of $17,000 above the fiscal year 1986 adjusted level of $1,663,000. The net increase consists of $67,000 to fund an intensification of global meteorological data monitoring and analysis, of which resources in our base appropriation of $50,000 would be made available by reprogramming LANDSAT funds. In redirecting the use of these funds, we are proposing a decrease of $50,000 in LANDSAT funding which had been made available to other USDA user agencies for acquiring remote sensing data.

This concludes my statement, Mr. Chairman. My associates and I are prepared to answer any questions you may have concerning the WAOB programs and budget request.

NATIONAL AGRICULTURAL LIBRARY

STATEMENT OF JOSEPH H. HOWARD, DIRECTOR

Mr. Chairman and members of the Subcommittee, I welcome this opportunity to appear before you to discuss the proposed fiscal year 1987 budget for the National Agricultural Library (NAL).

NAL has traditionally provided information on all agricultural subjects. With the provision of some extra positions, NAL foresaw an opportunity to expand the quantity and quality of services on an incremental basis. To help accomplish this, NAL is establishing information centers on various subjects.

The Food and Nutrition Information Center (FNIC) is a well established center. Other centers have recently been created focusing on major agricultural topics--aquaculture, biotechnology, critical agricultural materials, and food irradiation.

Additional centers on alternative farming systems, fibers, horticulture, animal welfare, rural information, and the family are being planned.

Based primarily on the Library's 1.8 million volume collection, the centers serve as national focal points for information dissemination activities. They are designed to provide selective, in-depth subject coverage for researchers, educators, and communicators as well as reaching out to potential new user groups.

The centers are not physically isolated units; materials are housed at NAL within the regular collection. But designation of a topic as an information center means that (1) NAL will appoint one or more staff members to devote special attention to that topic, (2) related collection development will be strengthened and special collections on the topic may be sought, (3) contacts will be made with topical subject experts and related organizations, (4) indexing of materials on that topic will be improved (if appropriate), (5) special bibliographic and other information products on the topic may be prepared, and (6) the fact that pertinent materials are available at NAL will be promoted.

The high priority given the actual or potential uses of new technologies in library services and operations was evident in a number of automation projects.

Leading the list, the MITRE Corporation completed a detailed requirements document to be used as the basis for the competitive procurement of a projected integrated library system in 1986. The MITRE staff with knowledge of and experience with library operations worked with NAL staff to complete the documentation which describes in detail the implementation plan for the integrated library system procurement. This plan includes a personnel recruitment and training plan and a plan to procure, install and test the new hardware and software (acceptance test).

As another thrust, NAL has conducted an evaluation study using laser video disc for the storage and retrieval of full-text agricultural information. The study consisted of creating a 12-inch laser disc containing the Pork Industry Handbook and 200,000 records from the NAL bibliographic database, AGRICOLA. This has been done with the cooperation of Extension, Purdue University, and the Pork Producers Council.

Based on the initial success of that study, the NAL is proceeding with a project to produce a second videodisc. This disc is to contain the full text, plus associated graphics, for 13 other agricultural publications. The disc will be offered to land grant libraries who have, or are willing to procure, the necessary hardware and software to utilize this new storage medium.

The creation of specialized local databases was another area of automation activity. A joint project was launched by NAL, Cuadra Associates, and the USDA-Plant Variety Protection Office, to create a local file of catalog records for the NAL Seed Trade Catalog Collection. Cuadra has developed a program to download and convert Online Computer Library Center, Inc., (OCLC) catalog records to local systems which utilize the Alpha Micro computer and the STAR software system. The local files can then be enhanced to meet local needs. Approximately 1,800 records have been cataloged and downloaded. Online access is provided to various user sites at NAL.

The NAL also began working with DISCLOSURE, Inc. in a marketing survey on the utilization of CD-ROM discs for the distribution of bibliographic information. By agreement, and working with NAL and Cornell University, DISCLOSURE will utilize the AGRICOLA database to master CD-ROM discs which will then be made available to selected test sites. Another private firm, Oryx Press, has also announced their intention to produce the AGRICOLA database on CD-ROM discs.

A national demonstration center for food and nutrition microcomputer soft ware was established at the Library with an initial collection of over 70 food and nutrition programs. Persons from all over the nation visited the center for demonstrations and hands-on experience with the various programs. Software producers donated demonstration disks or copies of their programs with full documentation for inclusion into the AGRICOLA database as well a for the use of patrons of the NAL Food and Nutrition Information Center. NAL is expanding this service as well.

A collection containing more than 500,000 photos and several thousand slides was acquired by the NAL from the Forest Service, USDA. The Forest Service permanent image data base--an online index to these images--will also be administered by the NAL. Negatives of the collection materials are housed at the National Archives and prints can be ordered from that institution. As part of the transfer agreement, the Library will do a pilot study on the use of laser technology for storage of and access to a portion of the collection.

In addition to forestry, the collection also includes pictorial documentation of the nation's movement in its later agricultural stages as well as the opening and early development of public lands. NAL is working with Forest Service, the National Archives, and the University of Maryland on this project.

An electronic instructional package utilizing laser disks coupled with personal computers is being developed to further encourage and improve the online use of AGRICOLA, the Library's master bibliographic data base. The courseware for the new program--being designed under a cooperative agreement with the University of Maryland--is intended for instruction at the introductory, intermediate, and expert levels using a one-on-one approach or to assist an instructor in a workshop context.

These are only a few of NAL programs that have been singled out for highlighting in that they represent new thrusts and new potential in our effort to provide agricultural information to the nation.

We propose a fiscal year 1987 budget of $11,421,000. Included are thrusts for developing information centers and making use of advanced technology, $97,000. An increase of $61,000 is also requested to partially fund a feed composition database.

Mr. Chairman, I have with me today the Associate Director, Mr. Sam Waters. He and I will be happy to answer any questions that you might have.

QUESTION SUBMITTED BY SENATOR COCHRAN

National Agricultural Library

Question: The National Agricultural Library is a vital link to the worldwide dissemination of agricultural information. What effect will the reduced budget of NAL, plus the sequestration under Gramm-Rudman-Hollings, have on the AGRICOLA database, and the Bibliography of Agriculture?

Answer: Although NAL's 1986 budget reductions impacted NAL as a whole, the reductions were taken in ways that would minimize the effect on the production of AGRICOLA records which make up the online AGRICOLA database and the printed Bibliography of Agriculture.

The book and serials acquisition budget cut is causing fewer titles to be available at NAL for inclusion in AGRICOLA. The reduced number of staff positions is resulting in fewer titles processed into machine-readable form for AGRICOLA. The reduction in availability of computer resources at NAL is having a negative impact on the actual production of the AGRICOLA magnetic tapes and on the amount of machine edits that can be performed. Training in searching AGRICOLA, which NAL currently provides free of charge to employees of USDA, the land-grant universities and colleges, and other federal, state, and local agencies, may also be curtailed.

FEDERAL GRAIN INSPECTION SERVICE

STATEMENT OF ALAN T. TRACY, ACTING ASSISTANT SECRETARY FOR MARKETING AND INSPECTION SERVICES

Thank you for this opportunity to review the programs and budget of the Federal Grain Inspection Service (FGIS). Joining me today is Dr. Kenneth A. Gilles, Administrator, Mr. David R. Galliart, Deputy Administrator and Mr. Robert "E" Soderstrom, Director of the Resources Management Division.

Our request comes at a time when the U.S. grain marketing industry is faced with decreasing exports and increasing world-wide competition. FGIS will help meet this challenge by facilitating the trading of grain through its role of providing and supervising grain inspection and weighing services.

The FGIS budget proposal fully supports the President's goal to reduce the Federal deficit. A total of $43.8 million is proposed for fiscal year 1987. Under current law, $7.0 million would be financed through an appropriation request which is before this committee. However, the Administration has also proposed legislation to eliminate this appropriation and thus increase the agency's dependence on user fee funding from 85 to 100 percent. This is of course consistent with the Administration's general thrust to initiate or expand user fees wherever possible.

With this general introduction I will yield to Dr. Gilles who will present the budget in greater detail.

STATEMENT OF KENNETH A. GILLES, ADMINISTRATOR

I appreciate the opportunity to appear before this Committee today. My presentation will include a description of the overall Federal Grain Inspection Service (FGIS) program, and emphasize our continued efforts to provide a cost effective grain inspection and weighing service.

We anticipate a total operating level of $43.8 million for Fiscal Year 1987. Under current law, user fees will account for $36.8 million and will fund our inspection and weighing activities. For standardization and compliance as well as foreign monitoring and advisory committee activities, our appropriations request totals $7.0 million. However, the Administration will submit user fee legislation which, if enacted, would convert the $7.0 million appropriations request to user fees.

The FGIS' mission is to provide for the establishment of official U.S. standards for grain, to promote the uniform application of standards by official inspection personnel, to provide for an official inspection system for grain, to regulate the weighing and certification of the weight of grain shipped in interstate or foreign commerce and to carry out the delegated responsibilities under the Agricultural Marketing Act of 1946. These activities are funded by a user fee cost recovery program. The inspection and weighing activities, which are mandatory at export ports and permissive in the domestic area, comprise the national "Official" Inspection System.

This system encompasses approximately 4000 employees, 600 of whom are FGIS field personnel who provide the direct on line mandatory inspection and weighing of grain at 60 export elevators. Eight delegated States employing approximately 800 employees provide mandatory official services at an additional 31 export elevators under direct Federal oversight. In the domestic market, permissive inspection and weighing services at inland locations are performed under Federal monitoring by approximately 2200 licensed inspectors, weighers, samplers and technicians employed by 81 designated State and private agencies.

Currently, FGIS derives approximately 84 percent of its revenues from user fees charged for its inspection and weighing services. Revenues received are related to requests for our services which in turn depend on the volume of grain exports. During Fiscal Year 1985, despite a decrease in exports, Agency cost efficiency efforts yielded a positive operating margin of approximately $264,000. FGIS repaid to the Department of Treasury $2 million, the second installment, of the $6 million supplemental appropriation it received in November of 1983. The balance of $2 million will be repaid in Fiscal Year 1986 if operating balances permit. We have always considered this supplemental appropriation to be a line of credit to be used if needed.

PROPOSED LEGISLATION

FGIS will propose user fee legislation beginning in Fiscal Year 1987, for standardization, compliance, foreign monitoring, and advisory committee activities. Then user fees will fund 100 percent of the Agency's programs. This legislation is a continuation of the Administration's efforts to reduce the Federal deficit and decrease our dependence on appropriated funds. Although the general public receives some benefit from these standardization and compliance activities, the direct beneficiaries are the producers, merchandisers, users and others who participate in the marketing of U.S. grains and related commodities. User fees will be based on the costs of the service provided.

We recognize that this proposal may cause some consternation within the grain and related commodities industries. Moreover, the FGIS Advisory Committee opposes this concept. However, the industry has benefited from and supported our previous and continued efforts to provide a cost effective, user fee funded service. FGIS' dependence on user fee funding has increased from 59 percent in Fiscal Year 1981 to approximately 85 percent in Fiscal Years 1982 through 1986. During this time, FGIS has improved both its service and its public perception as a governmental service agency.

PROGRAM AND FINANCIAL INFORMATION

The quality and condition of U.S. grain received renewed interest during Fiscal Year 1985. Worldwide competition increased as supplies were plentiful and U.S. prices were higher than competing foreign commodities. While our traditional trading partners recognize that the U.S. is a quantity supplier, they desire to have better quality and condition when the price is higher relative to other suppliers. Generally, the wheat harvest of 1984 was completed under favorable climatic conditions. However, these conditions were adverse for the corn and soybean harvests, and the quality and condition of corn and soybeans were below average. Consequently, many cargoes were at the lower range of the grades, and buyer complaints increased.

Grain export inspections totaled 101.1 million metric tons, compared to last year's 115.2 million metric tons, a decrease of 14.1 million metric tons or 12 percent. Domestic grain inspections totaled 168.0 million metric tons, compared to last year's 179.2 million metric tons, a decrease of 11.2 million metric tons or 6 percent.

FGIS' user fee revenues during Fiscal Year 1985 were $31.7 million, with obligations of $31.5 million, yielding a net operating margin of approximately $264,000. Prior year adjustments of $300,000 accrued to the revolving fund which ended the year at $8.0 million. The $8.0 million represents a 3-month operating reserve, a position that we strive to maintain. Revolving fund obligations for Fiscal Year 1985 were $31.5 million or about $600,000 above the prior year's level of $30.9 million.

Because of decreased exports and cost containment efforts, total obligations were below budget authorization limits. Fiscal Year 1985 appropriated obligations of approximately $6.7 million plus revolving fund obligations of $31.5 million totaled $38.2 million or approximately $500,000 over Fiscal Year 1984 total program obligations.

Effective October 1, 1985, FGIS reduced fees by approximately 40 percent for the supervision of inspection and weighing services performed by official agencies. Under current law, delegated States and designated agencies perform official inspection and weighing services under Federal supervision and must pay fair and reasonable fees to FGIS to cover its costs. If current cost and revenue patterns continue, fees may have to be adjusted in Fiscal Year 1986 for original inspection and weighing services.

During Fiscal Year 1985, FGIS continued its standardization and related research activities. New standards were developed and existing ones were revised to assure that the physical and biological characteristics of grains and related commodities are uniformly and accurately described during movement through the marketing system. The standards must reflect changes in production and marketing practices. Standards reviews were completed and revisions published for soybeans, triticale, flaxseed and oats.

To improve the grain inspection system, FGIS continued to cooperate in the development of objective testing procedures. This was accomplished through FGIS research and outside contracts. Outside research contracts included studies to determine hidden insect infestation in wheat, to develop objective procedures for wheat classing and to evaluate the CuSum loading plan. FGIS projects included the development of reference methods for moisture determination in grain and the use of pulsed nuclear magnetic resonance technology to determine moisture and oil content in soybeans.

A lease has been signed with GSA for our new technical center in Kansas City. Occupancy is scheduled between April and June of this year.

FISCAL YEAR 1987 REQUEST

Total funding for FGIS is estimated to be $43.8 million in Fiscal Year 1987. This consists of $7.0 million in appropriated funds for standardization, international monitoring, compliance and advisory committee activities and $36.8 million to be collected from user fees for inspection and weighing services. Our staff-year ceiling is now 940.

ADVISORY COMMITTEE

We have continued to work closely with our advisory committee. It offers an important source of advice and assures that FGIS receives industry's view as the Agency formulates policy affecting the grain industry. Subcommittees were established to address corn moisture, insect infestation and legislation on the removal of dust from grain. The Committee also addressed the issues of proposed user fee legislation; grain quality reports for corn, wheat and soybeans; proposed changes in the grain standards and the financial status of FGIS.

SAFETY

Within the Department's grain elevator safety program, FGIS maintains the USDA Grain Explosion Reporting and Tracking System. During Fiscal Year 1985, 16 explosions in grain handling facilities resulted in 1 death and 14 personal injuries. This compared to 20 explosions resulting in 9 deaths and 14 personal injuries during Fiscal Year 1984. No Federal employees were involved in either year. Increased awareness of explosion risk has led to interaction among government, industry, union and trade associations. Substantial research and education efforts by the industry have improved dust control procedures and explosion prevention methods.

Secretary Block in 1982 established a grain storage, handling and processing safety program and a safety subcommittee to monitor activities and promote safe grain movement. During Fiscal Year 1985 the subcommittee utilized the National Agricultural Library in Beltsville as an international repository for research on elevator safety.

At FGIS' request, the National Institute of Occupational Safety and Health (NIOSH) conducted a series of health hazard evaluations at several FGIS field office work sites. NIOSH found that FGIS employees were not in danger of any serious health hazards as a result of exposure to grain fumigants.

CONCERNS

Challenging issues continue to confront the national inspection system. These include wheat classing, insect infestation, wheat dockage certification and the quality and condition of U.S. export grain.

The only acceptable method in current commercial practice for classing wheat for grading purposes is by visually examining the physical kernel characteristics. Variations of this system are used by all major grain exporting nations. Increased breeding and production of new atypical wheat varieties exhibiting parental kernel characteristics of more than one class continue to increase the difficulty for licensed inspectors in classing wheat. Factors further complicating wheat classing are the influence of climate, fertility and environmental conditions on the kernel characteristics and the commingling of typical and atypical varieties in marketing channels. Moreover, the grain industry retains preference for the current classification system.

No objective test currently is available which accurately classes wheat according to the present standards; however, a number of tests are currently under study by USDA, university, and industry researchers. FGIS will continue to work with researchers in the field to find an acceptable solution to the wheat classing problem. As directed by the Food Security Act of 1985, FGIS and the Agricultural Research Service have submitted a joint Report on Grain Classification, dated December 31, 1985, to the House and Senate Agriculture Committees. Semiannual reports on this issue will follow.

Insect infestation is a major concern to foreign and domestic buyers and processors. The problem is compounded by the loss of certain pesticides. The concern is shared by FGIS because it identifies insect-infested grain or grain damaged by insects and certificates the results. FGIS is examining its procedures for identifying and certifying live and hidden insect infestation and is working with the Agricultural Research Service to encourage development of efficient methods for controlling insects in grain.

The current method of wheat dockage certification rounds the actual percentage of dockage down to the nearest 0.5 percent; for example, for 0.0 to 0.49 percent no dockage is shown, 0.50 to 0.99 percent is shown as 0.5 percent dockage, and so forth. Foreign buyers object to this certification approach because it under-reports the amount of dockage in U.S. wheat as much as 0.49 percent.

In January 1984, FGIS proposed a change in the dockage rounding procedures during the review of the wheat standards. Comments received on the proposed change indicated considerable controversy surrounded this issue. FGIS published a final rule in the May 16, 1984, Federal Register which included a notice that (1) a change in the dockage rounding procedure was deferred pending completion of further study, and (2) at least one public meeting would be held to discuss the issue before further action is taken. This meeting was held on January 7, 1986, with approximately 80 people in attendance. Twenty-four separate agricultural groups, foreign buyers, and individuals commented on dockage certification issues. There was general agreement that dockage certification procedures, in view of present technology, should more accurately describe the dockage content in wheat. The majority of comments supported early action to change the standards to allow certification of wheat dockage to the nearest 0.1 percent.

The FGIS Advisory Committee also considered the issue of dockage last October and recommended that FGIS propose to certificate dockage to the nearest 0.1 of a percent rather than the previously described method.

The quality of U.S. export grain has come under increased scrutiny and concern by foreign buyers, exporters, producers, other segments of the grain industry, the media, and the public-at-large. The public perceives that the quality of U.S. grain is poor when compared with other countries. With the Food Security Act of 1985, Congress has directed the Office of Technology Assessment to conduct a study of U.S. grain export quality standards and grain handling practices. The study will be conducted in consultation with USDA and recommendations are to be submitted to the Congress by December 1, 1986.

The U.S. grain marketing system is very complex. Mixing and blending of grain, a key element in the marketing chain, begins at the farm and continues at each marketing level. When properly practiced, blending facilitates quality control.

The handling of grain at each step in the marketing chain produces dust and broken kernels, as well as segregation of material. When a shiphold is initially opened, this segregation causes the grain to appear dusty on the surface. Many importers receive only a portion of the total shipment. Differences caused by segregation, sampling techniques, and grading methods at destination can account for over 90 percent of the foreign complaints. FGIS' foreign monitoring program includes an extensive educational program to acquaint the buyer and user with FGIS policies and procedures to minimize such problems.

Generally, foreign buyers recognize the levels of grain quality that the official U.S. grades represent. In some cases, however, buyers have a preconceived concept of what the grain quality should be. When it does not meet these expectations, they may complain -- even if the quality is within the grade limits and contract specifications. U.S. standards have tolerances for various grading factors which are greater than the tolereances used by our chief competitors. The standards are published and buyers of U.S. grain have ready access to them.

We will continue working with representatives of the grain industry, including producers, in an effort to resolve the problems and perceptions surrounding the issue of grain quality.

CLOSING

Mr. Chairman, this concludes my testimony. I would be glad to answer any questions you or other members of the Committee may have.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

SUPPLEMENTAL

Question: In your statement, regarding the fiscal year 1984 supplemental appropriation of $6 million, you say that you "have always considered this ... to be a line of credit to be used if needed."

Please explain.

Answer: In November 1983, FGIS received a $6 million supplemental appropriation to recapitalize its depleting revolving fund account. The nonrecurring budget request was to enable FGIS to maintain a sufficient operating reserve and base its decisions on long-range program considerations rather than short-term profit and loss considerations. In the last two fiscal years, FGIS has repaid $4 million of the $6 million supplemental to the Treasury. The balance will be repaid in fiscal year 1986, as operating balances permit.

GRAIN EXPORT VOLUME

Question: What are your projections for grain export volume next year?

Answer: The official USDA fiscal year 1987 U.S. grain export figure has not been released at this time. However, the May 21 World Agricultural Outlook Board projection of the fiscal year 1986 U.S. agricultural export volume calls for approximately 92.0 million metric tons. This projection includes wheat, coarse grains, soybeans, sunflower, corn and rice and is approximately 11.3 million metric tons or 11 percent less than the fiscal year 1985 U.S. agricultural export volume.

Question: Did you consider that level in making your budget request?

Answer: Estimated grain export volume levels are considered in our budget planning. The fiscal year 1987 budget was developed in June 1985 and USDA export estimates two years in the future are not available. As an Agency 85 percent dependent on user fees, we must make our best estimates on potential workload--directly related to grain exports-- and then fit the work force to that workload. We are mandated by law to provide inspection services at export locations and, therefore, we must consider that a minimum work force must be maintained to carry out this obligation.

USER FEES

Question: What reasons has the FGIS Advisory Committee given for opposing your user fee legislative proposal?

Answer: On April 15, 1985, the FGIS Advisory Committee opposed user fee legislation for the administration of standardization, compliance, international monitoring, and Advisory Committee activities on the basis that these activities are in the public interest, and it would place an unfair burden on the grain industry through higher costs and create problems in conducting their business. Additionally, unofficial inspection services use procedures, tests and equipment developed by FGIS; and there is no means to collect user fees from these unofficial sources. The Advisory Committee reaffirmed its position on April 30, 1986.

ADVISORY COMMITTEE

Question: How much is spent under the FGIS appropriation for the FGIS Advisory Committee?

Answer: The fiscal year 1985 FGIS Advisory Committee expenditures were approximately $31,500.

USER FEES

Question: In what ways has the industry received better service over the past few years as user fees have become a more prevalent mechanism of funding for FGIS programs?

Answer: Increasing FGIS' user fee funding from approximately 59 percent in fiscal year 1980 to 84 percent in fiscal year 1986 has required significant management and program efficiency improvements. FGIS eliminated a regional management structure and placed greater management authority at the local field level; certain recordkeeping requirements were eliminated or modified; employee cross utilization was expanded to improve productivity; and a new oversight/supervision relationship was implemented with the States of California and Washington to mutually reduce costs and strengthen program activities. These actions, combined with several other program changes, have resulted in a more responsive and efficient national official inspection and weighing system capable of meeting the demands of the marketplace.

FUNDING REDUCTION

Question: How did the March 1 sequester affect your agency?

Answer: Like other Federal agencies, FGIS reduced its fiscal year 1986 budgeted costs by 4.3 percent. Appropriated funding was reduced by $301,000. This necessitated delays in filling staff vacancies, postponement of research, and reductions in travel and equipment purchases. The revolving fund reduction was $1,585,000. Decreased grain export activity has caused FGIS operating levels to fall below authorized budget levels and therefore, FGIS programs supported by revolving funds will not experience program impact in fiscal year 1986.

USER FEES

Question: Effective October 1, 1985, FGIS reduced user fees by 40 percent for the supervision of inspection and weighing services performed by official agencies," says your statement. What actual benefit did the end user receive?

Answer: Eighty percent of the official agencies passed the reduction in fees to the end user of the services.

Question: Your Statement also says, "If current cost and revenue patterns continue, fees may have to be adjusted in fiscal year

1986 for original inspection and weighing services." Do you think they will be adjusted upward or downward?

Answer: The fees for original inspection and weighing services will not be adjusted for fiscal year 1986. However, an upward adjustment to fees effective for fiscal year 1987 is under consideration.

INSPECTION SERVICES

Question: What incentives do States have to provide their own inspection services instead of leaving it to the Federal Government?

Answer: In responding to this question, it is important that a clear understanding of FGIS' role in the National inspection system is understood. FGIS designates State or private agencies to provide inspection service at interior locations. If a designated State, such as Kansas or Missouri, decided to discontinue inspection service, a private inspection agency would be designated to provide service.

On the other hand, FGIS or a delegated State provides export grain inspection service. Under Section 7 of the U.S. Grain Standards Act--USGSA, FGIS may delegate export inspection authority to certain States.

The limitations within the Act and fluctuating nature of grain trade and exports govern to a large extent whether a State provides inspection service. A state's incentive for providing inspection service in lieu of FGIS includes meeting the needs of its own industries, retaining job opportunities, provincial pride, and a general belief that it can do a better job than the Federal Government.

APPROPRIATED FUNDS

Question: Are the activities for which appropriated funds are made available primarily quality-oriented, or are these also safety inspection activities paid for with these dollars?

Answer: The FGIS standardization, compliance, international monitoring and Advisory Committee activities are supported by appropriated funds and are primarily oriented towards quality control. These programs serve to assure that integrity is maintained in the inspection, weighing and handling of American grain, and to promote the orderly marketing of U.S. grain. The FGIS safety program is mainly funded through the revolving fund account; approximately 15 percent is supported through appropriated funds.

COMPLAINTS

Question: Are any of your product complaints safety-related, or are they all quality related?

Answer: Most complaints are quality related, however, dust is a potential hazard both to health and body as a respiratory irritant or an explosive.

STANDARDS

Question: Your statement says, "U.S. standards have tolerances for various grading factors which are greater than the tolerances used by our chief competitors." Is that a desirable situation?

Answer: The tolerances or factor limits which are a part of each standard were established after passage of the original U.S. Grain Standards Act (1916). Since that time as the needs and desires of the market are brought to the attention of FGIS various proposals have been made to amend the factor limits and other parts of the standards. Since this involves the formal rulemaking process, all interested parties are allowed time to present their views and/or opinions regarding proposed changes. Depending upon these responses changes can be and are made to facilitate the orderly marketing of grain and related commodities. The desirable situation is to have tolerances that are practical and reasonable, and that meet the test of facilitating the orderly marketing of grain produced in the United States. Our system differs from most of our competitors who use a Fair Average Quality--FAQ--approach through centrally controlled governmental marketing. They adjust their quality reference samples annually using FAQ.

Question: Is there any plan being considered to change that?

Answer: At least once every five years--or more often if necessary--each grain/commodity standard is reviewed for adequacy regarding whether it meets the intended purpose of the standard. An example of proposed change is the method of dockage certification in wheat. The current procedure allows for rounding down of dockage to the nearest half percent, e.g., 0.49 percent dockage is certified at 0 percent; 0.99 percent dockage is certified at 0.5 percent, etc. A proposed rule published in the May 30, 1986, Federal Register proposes that dockage be certified to the nearest tenth of a percent. Rounding to 0.1 percent is more precise, fair, and should enhance the marketability of U.S. wheat in the world market.

STAFF-YEARS

Question: For what reason were your staff-years increased by 29% from 1985 to 1986?

Answer: The fiscal year 1985 figure of 121 staff-years represents actual staff-years used to carry out the FGIS Salaries and Expenses program. The fiscal year 1986 staff-year figure of 156 represents the staff-year ceiling which FGIS is authorized to perform this program activity. Therefore, the difference is between the actual staff-years expended in fiscal year 1985 as compared to the authorized fiscal year 1986 staff-year ceiling.

APPEALS

Question: Generally, what sort of decisions or rulings are appealed?

Answer: The grain industry appeals inspection results. The reasons for appealing the inspection results vary. A 1983 FGIS study revealed, in part that grain industry representatives request appeals as a doublecheck on problem grading factors, such as, sprout damage during certain crop years, or as a time delaying effort to meet a trading rule, or to obtain an FGIS certificate on a shipment destined for an FGIS export service location, or because they question the original results.

NATIONAL TECHNICAL CENTER

Question: Please provide a brief description of the National Technical Center.

Answer: The National Technical Center--NTC--will be a newly constructed facility of approximately 15,000 square feet of office and laboratory space. Housed in this center will be those personnel currently occupying temporary facilities at the Richards-Gebaur AFB in Grandview, MO. The new facility will be approximately 5 miles from the Kansas City International Airport thus allowing easy access by visitors and trainees. The Standardization Division and a part of the Field Management Division will comprise the NTC--approximately 55 individuals. Research, standards development, quality control, supervision (grain grading) and appeal functions comprise the main activities of these divisions. The new facility will be leased through the General Services Administration at a cost of $248,000 per year.

AGRICULTURAL COOPERATIVE SERVICE

STATEMENT OF RANDALL E. TORGERSON, ADMINISTRATOR

I appreciate the opportunity of appearing before you to present the budget of the Agricultural Cooperative Service. First, I want to introduce my associates who are with me today -- Dr. Jack Armstrong, Deputy Administrator, Agricultural Cooperative Service; and Samuel V. Ladd, Director, Budget and Accounting Division, Animal and Plant Health Inspection Service.

The Agricultural Cooperative Service (ACS) is the Department's focal point in providing research, analysis, technical assistance and education to farmer-owned cooperatives throughout the Nation. ACS operates as an independent agency carrying out major functions assigned to it by the Secretary. Activities and services of the Agency closely follow the language and spirit spelled out by Congress in the Cooperative Marketing Act of 1926.

Agency Missions

The Agricultural Cooperative Service performs research and policy analysis on cooperative related issues and is the primary supplier of services to farmer cooperatives. We help existing cooperatives improve their efficiency and effectiveness of operations and assist new cooperatives to get a good start. We provide service and information to bring about more effective cooperative operations in support of the farm family ownership structure.

The Agency's program has five basic parts: (1) technical assistance, (2) new cooperative development, (3) research, (4) collection of cooperative statistics, and (5) cooperative education and information.

The Importance of Farmer Cooperatives

A total of 5,782 marketing, farm supply, and related service cooperatives were operating in 1984, with combined sales of $73.0 billion. Sales increased 9.4 percent in 1984, but net margins of all cooperatives declined 4.4 percent to $1.01 billion. Total assets were $29.2 billion and member and patron equity $12.2 billion. Cooperative memberships were 4.8 million, indicating many farmers belong to more than one cooperative.

As a reflection of general economic difficulties in the agricultural sector, the number of cooperatives reporting losses increased from 702 in 1983 to 984 in 1984, or 12 and 17 percent of all cooperatives respectively. Some major losses have been reported in 1985 by individual cooperatives. Since cooperatives are integrally linked to the well-being of their farmer members, the poorer performance reflects continued difficulties in production agriculture.

Producers continued to look to their cooperatives to be efficient and effective in representing their interests in the marketplace. To accomplish this, boards of directors and managers have taken steps in many situations to make changes internally and to even consider structural alignments with other cooperatives or businesses. The number of mergers, consolidations and dissolutions has increased and is reflected in the decrease of 207 cooperatively owned businesses from 1983 to 1984. The Agricultural Cooperative Service is involved in a number of such adjustment studies throughout the country to assist producers in evaluating their alternative courses of action.

Overview of Research and Technical Assistance Activities

You may ask, and rightfully so, what are we in ACS specifically doing to assist the farmer cooperative sector. During the past year the Agency provided technical assistance to 83 co-ops and producer groups through 62 separate projects. Forty two of these projects involved emerging or developing co-ops, serving a total membership of over 3,800. Commodities examined included grain, soybeans, cotton and cottonseed, peanuts, fruits, vegetables, beef, dairy, handcrafts, feed, and other farm supplies. Examples of specific projects include: comparative cost study for 32 cooperative dairy plants in the Midwest; the establishment of a peanut shelling cooperative in Virginia and North Carolina; merger studies of cooperatives in Iowa and Hawaii; a plant cost analysis of 14 cooperative oil seed mills in the south central states; work with New York grape growers to market juice and wine; assistance to Kentucky vegetable growers to develop cooperatives for packing and marketing; and long range planning assistance for a farm supply and grain marketing cooperative in Oklahoma. Projects involved cooperatives located in 30 states.

The Agency's research program provides timely and relevant information to the managers and directors of the Nation's cooperatives. Examples of research accomplishments in 1985 included: an analysis of reserve balancing pool for services by dairy cooperatives; a financial profile of the largest cooperative organizations; use of export management companies by cooperatives; an analysis of director liability in farmer cooperatives; and examination of cooperative operations in grain, petroleum, farm supplies, potatoes, dairy, wool, fish, and fruit and vegetables.

The findings and recommendations of these research projects assist cooperatives in improving operations and services provided to members. The Agency continually evaluates and updates research plans, so that the most pressing issues of concern to cooperatives are addressed. Currently over 70 research projects are underway.

Results of ACS research and technical assistance work are highlighted in the monthly Farmer Cooperatives magazine, now in its 51st year of publication. This publication is aimed at directors and managers of cooperative associations, more than 90 percent of which have annual sales of less than $15 million. They are truly small businesses that are found in rural communities throughout the Nation.

In response to the President's Reform '88 program, we are still in the process of automating many analytical and administrative functions. When completed, this will help us to achieve our objectives more efficiently. To conduct our Agency's activities during FY 1987, we will have a ceiling of 64 staff years.

The ACS budget request for FY 1987 is $3,698,000, which is $972,000 less than the Agency's FY 1986 level. Our FY 1987 budget proposes the following changes:

> A reduction of $972,000 for research on cooperatives in international trade and finance and on adjustments to changing structure of production agriculture and its subsequent impact on processing and marketing systems.
>
> A shift of the ACS program to be totally funded through user fees. Legislation has been prepared to provide for the beneficiaries of the Agency's services to pay for them. A system of charges is being developed.

As soon as legislation is passed and our proposed user fee plan is approved we will initiate these programs.

Mr. Chairman, I thank you for the opportunity to present this statement. We will be glad to respond to any questions.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

COOPERATIVE SHARING

Question: Are there cooperatives which share in the utilization of equipment and/or labor?

Answer: Yes, particularly on the equipment side. In the fruit and vegetable industry for example, processing cooperatives have found it to their advantage to share processing capacity with other cooperatives whose product(s) are bottled, frozen, canned, etc. at different times during the year. This increases plant utilization and lowers costs for each participant. There is less sharing on the labor side although some examples, such as a cooperative cotton gin whose crew dries plums during the off-season can be found. In some cases, local farm supply cooperatives share use of application equipment while regional organizations may use joint warehousing and distribution systems.

CATFISH COOPERATIVES

Question: Has ACS been active in assisting cooperatives in the South?

Answer: In 1984, ACS assisted catfish producers in southwest Alabama who wanted to evaluate the feasibility of establishing a cooperative to supply their catfish feed needs. The Agency provides technical assistance only when requested by groups of producers or cooperatives. No other catfish producers or cooperatives have requested ACS assistance in recent years. The Agency did carry an article on Delta Pride catfish cooperative of Indianola, Mississippi in the February 1986 issue of its monthly magazine Farmer Cooperatives.

COOPERATIVE RESEARCH

Question: In its report on this fiscal year's agriculture appropriations bill, the Committee stated its expectation that priority should be given "to efforts to assist and encourage agricultural cooperatives in their effort to expand the international marketing of agricultural commodities". For 1987, you are proposing to reduce research "on cooperatives in international trade and finance and on adjustments to changing structure of production agriculture and its subsequent impact on processing and marketing systems".

Do you see your proposal as being inconsistent with this Committee's expectations of your Agency?

Answer: The proposed Agency FY 1987 budget calls for all services, including research to be funded on a user-fee basis. It is anticipated research would be substantially reduced. In the past, about 40 percent of the Agency's resources has been used for research. The Committee has been kept informed of our past program efforts, including those in research. If the Committee expects our program to continue as in the past, then the user-fee proposal would not be consistent.

Question: Please give a brief example of past research activities associated with these areas which you plan to reduce.

Answer: Past research projects such as Cooperative Grain Trade Opportunities in Eastern Europe, Financial Performance of Dairy Cooperatives, and Agricultural Cooperatives: Challenges and Strategies, would no longer be conducted.

Question: Why was this particular area of research chosen for reduction instead of some other area?

Answer: The Agency's proposed FY 1987 budget would result in the total elimination of all outside research conducted with land grant colleges and universities, as well as others, through the use of cooperative research agreements. A significant part of our research on cooperatives in international trade and cooperative finance is conducted in this manner. Our proposed FY 1987 budget would result in total elimination of this research.

EXTENSION SERVICE COORDINATION

Question: Do you work with the Extension Service in any of your activities, especially the preparation and/or distribution of educational materials?

Answer: ACS works with Extension primarily in the distribution and use of educational materials. Announcements of all new ACS publications are sent to the cooperative specialist in Extension for distribution throughout the ES system. In fiscal year 1985, 18 of 81 major requests for ACS publications concerning educational programs came from Extension sources in 10 states. Our monthly magazine, Farmer Cooperatives, is sent to key Extension personnel.

RESEARCH USER FEES

Question: I assume you would assess fees on technical services and other materials based on your cost to provide them to specific cooperatives. How would you assess user fees on research activities of ACS?

Answer: At this time we are not sure how or to what extent this could be achieved. Some alternative possibilities include: individual cooperative sponsorship of projects, groups sponsorship, or funding through organizations or associations.

RESEARCH REDUCTION

Question: You are proposing to reduce your research activities but not your staff level. What will be the focus of those who have been working in the areas of research which you propose to reduce?

Answer: The activities of staff would largely be directed away from research and more toward technical assistance under our proposed budget.

Question: Are all the reductions in this object classification table due to reduced international research?

Answer: No. Reductions would cut across the board including all research areas, not just in international research.

HAWAII FIELD OFFICE

Question: How much do you estimate the Hawaii field office will cost to operate in fiscal year 1987? How many staff years will be employed?

Answer: We now estimate that $90,000 will be needed to operate the Hawaii field office in fiscal year 1987. One staff year will be employed directly in that office. However, additional staff time will be devoted by headquarters staff as needed to provide timely responses to technical assistance from Hawaii.

OFFICE OF TRANSPORTATION

STATEMENT OF MARTIN F. FITZPATRICK, JR., ADMINISTRATOR

Mr. Chairman, Members of the Committee, I want to thank you for the opportunity to appear before you today. With me are Dr. Wesley R. Kriebel, my Deputy Administrator, and William S. Wallace, Acting Director of the Budget and Accounting Division of the Animal and Plant Health Inspection Service (APHIS). APHIS provides administrative support for the Office of Transportation.

Proposed Agency Elimination

We believe the Office of Transportation (OT) has provided a significant service to the U.S. agricultural industry since its formation in December 1978. However, in order to reduce mounting Federal deficits, it has become necessary to make difficult choices in order to reduce government expenditures. It has been determined that OT functions are not as high a priority in serving the agricultural industry as other Departmental programs. Accordingly, it is proposed to eliminate OT by the end of Fiscal Year (FY) 1987. The funding and staffing ceilings provided in FY 1987 will allow the Agency to phase down its program responsibilities during FY 1987. You have before you the proposed budget for FY 1987.

FY 1985 Accomplishments

I would like to take a few minutes to note our FY 1985 accomplishments. During FY 1985 we continued our close monitoring of the effect of rail deregulation on American agriculture. We have found that rail deregulation has had a positive effect for most farmers, but that some, particularly small shippers in isolated areas, have suffered from rate increases and line abandonment. We are working with the States and industry to deal with these problems. Recently, we were successful in helping establish three short line railroads in North Carolina. In addition, we are currently working with the Dakota Rail Road in South Dakota to insure its survival so the farmers can remain competitive in the market place. In FY 1986 we will continue this work with other States.

The grain industry has been particularly concerned with the effects of the rail deregulation. To help serve this important segment of agriculture, we have interviewed industry people and conducted a nationwide mail survey of grain shippers. We cooperated with Kansas State University to study the effects of rail deregulation on the marketing of Kansas wheat. We provided all of our findings to Congress during oversight hearings on the effect of rail deregulation.

I spoke in the past on the impending crisis of rural roads and bridges. We have developed a pilot study to assist States in identifying and priortizing rural road network problems. The Pennsylvania Departments of Agriculture and Transportation have conducted a study, based on our model. Additionally, we have assisted a number of midwest states to identify means for financing improvements. We strongly encourage other States to examine this problem.

We have continued our efforts to help develop export markets for U.S. farm products. We are implementing the Agreement on the International Carriage of Perishable Foodstuffs and on the special equipment to be used for such transportation. This requires a program of inspection, testing, and certification of refrigerated equipment. OT has developed the protocol for this program. OT continues to assure the timely cross-border movement of approximately 40,000 covered hopper cars of grain to and from Mexico annually. We have also conducted research to improve shipping technology designed to reduce product losses or to reduce transportation costs.

Industry and State Involvement

Many of the services we currently provide may be handled by the private sector and State governments. For example, we hope that universities will conduct research and analyses of transportation services and costs, rail abandonments, rural roads and bridges, and the consequences of transportation policy development upon agricultural producers. Industry should also continue with its research and expand its interest in common problems such as the rural road network.

Another important OT responsibility is participating in regulatory proceedings on behalf of American agriculture. In the last five years, OT has been involved in 28 key cases. As Congress has passed legislation reducing Federal regulatory responsibilities in recent years, there has been a downward trend in the regulation of surface transportation.

Mr. Chairman, recommending the elimination of an agency is never easy and this is certainly no exception. But I am hopeful that the base of work we have accomplished can be carried on by the States and industry. I would be happy to answer any questions that you may have.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

CLOSE OUT COSTS AND ACTIVITIES

Question: If the Committee chose to provide no funding for OT programs for fiscal year 1987, how much would be necessary for close-out costs?

Answer: FY 1987 close-out costs, including severance pay are estimated at $500,000.

Question: Why are you waiting until the end of fiscal year 1987 to close the office, instead of going ahead and terminating operations at the end of fiscal year 1986? What high priority activities do you plan to continue?

Answer: I believe it will take that long to completely close out the commitments OT has made to high priority activities. Those activities are:

Short Line Railroads.--Concern about the adequacy of rail service to meet the transport needs of the farmer, agricultural shippers, receivers, and the public has prompted OT to study the role of emerging short line railroads and how they might best serve agriculture. OT has been active in supplying technical and planning assistance to local leaders in rural communities on establishing and operating short line railroads where rail line abandonment has left an unfilled gap in transporting food to market. It is necessary for this Agency to continue providing assistance to its rural and small town constituents into 1987.

OT helped establish the Fairmont & Western Railroad in Robeson County, North Carolina, which is the State's largest corn producing county. OT also helped establish two new short line railroads in North Carolina, namely, the Franklin County Railroad Corporation and the Nash County Railroad Corporation. Current efforts are directed toward helping officials representing North Carolina's legislative, transportation, agriculture, and commerce offices and agriculture organizations study the feasibility of a rail-barge operation to replace the present 5 mile Norfolk Southern rail bridge over the Albemarle Sound as an alternative to abandonment of the line.

Railroad Deregulation Monitoring.--In 1985, OT conducted a national survey of grain storage facilities in the U.S. as part of OT's ongoing responsibility of monitoring the effects of rail deregulation on grain farmers, shippers, and processors. Another survey is planned for 1986 after the grain harvest. Results will then be tabulated and compared with the previous survey and a final report issued in FY 1987.

Financing Rural Roads and Bridges.--OT is currently studying the effect of different governmental structures and decision-making processes on the provision of rural roads and bridges. The study builds upon the results of a four state study (Illinois, Minnesota, Ohio, and Wisconsin) completed in 1985 that looked at the rural road and bridge problem from the perspective of town/township officials, farmers, and agricultural businesses.

Information about other states will necessarily be limited to perhaps four states given current funding and time constraints. Additional work is also being done to field test, evaluate, and if need be, revise the automated system (Management Assistance Program) developed during the previous study for budgeting and planning rural road and bridge improvements by local officials. The results of the previous study and explanation of the Management Assistance Program are given in the publication titled "Financing Rural Roads and Bridges in the Midwest".

Integration of OT's Technical Assistance Capability with the Foreign Agricultural Service's "Agricultural Marketing and Information Service." Information on transportation costs and services would be made available as part of the FAS service to further assist high-value agricultural product exporters.

An Examination of Foreign Port Infrastructure Constraints.--This precludes receipt of U.S. grain exports and contributes to the high cost of USDA ocean freight differential payments for PL-480 bulk grain shipments.

Research Assistance to the Animal and Plant Health Inspection Service justifying "an increase in pen sizes and stocking densities on ship loads of export cattle." The study was requested by an industry/government livestock export task force.

Technology Transfer Plan on Timber Bridges.--The Office of Transportation in cooperation with the USDA Forest Service and the forest products industry has embarked on a timber bridge technology transfer plan. Identification of safe and economical alternatives for the replacement of deteriorated bridges on rural low volume roads is extremely important given the magnitude of the rural bridge problem and the limited resources available to make improvements. OT's responsibilities in the cooperative project are to provide liaison between the Federal Highway Administration and its State-level Technology Transfer Centers, the rural government associations, and other national organizations having rural road interests; assist the FS in selecting demonstration sites off the National Forest System; and assist in developing and disseminating public information items.

OT has been active in carrying out these responsibilities and expects to honor its commitments on this project into FY 1987.

Perishables Transportation.--We are in the initial stages of a study of perishables transportation. In this study, we are looking at marketing patterns, traffic flow patterns, types of equipment, the impact of trucking and rail deregulation and impediments to economical and efficient transportation.

RAILROAD SURVIVAL

Question: In your statement, you say that you were successful in helping establish three short line railroads in North Carolina, and you are currently working with the Dakota Railroad to ensure its survival.

What has been your role in those efforts?

Answer: OT is concerned about the adequacy of the rural transportation system to meet the transport needs of agricultural producers and rural communities. Roads and rail lines are the primary means of getting supplies and raw materials into farms and businesses, moving products out to processors and markets, and transporting residents to services and off-farm jobs.

OT has developed information and data on the needs, conditions, and extent of the rural system. This information is used to analyze policies and to assess the economic performance of the marketing system for agricultural products. OT works to improve the quality of decisions made at the Federal, State, and local levels concerning the rural transportation system.

TRAFFIC MANAGEMENT FUNCTIONS

Question: Will traffic management functions be transferred back to ASCS? If so, how much will be needed for that purpose in ASCS?

Answer: I am not aware of any move to transfer the activities of the Traffic Management Branch back to ASCS. I do not believe that funding has been requested for this branch in the ASCS budget, so I do not know how much would be needed for this purpose in that Agency.

ACTIVITIES FOR TRANSFER

Question: According to the explanatory notes, "Some OT activities will be performed by other USDA agencies." Please describe the activities.

Answer: OT provides a variety of technical assistance to farmers, shippers, rural public interest groups, Federal and State agencies, farm and industry organizations, Members of Congress, and transportation researchers, through providing policy formulation, conducting economic studies, research, cooperative projects, and responding to one-on-one requests which may require further investigation. These activities are national and international in scope and the final product of these projects and studies is to attempt to transcend political boundaries and industry segments while incorporating the invaluable ideas and input of local government authorities and industry leaders.

At this time, no decision has been made by the Department of Agriculture to identify which agencies would carry on the responsibilities of the Office of Transportation.

PACKERS AND STOCKYARDS ADMINISTRATION

STATEMENT OF B.H. (BILL) JONES

I appreciate the opportunity to appear before the Subcommittee to discuss the programs of the Packers and Stockyards Administration (P&SA) and the Agency's budget request for fiscal year 1987. First, may I introduce my associate, Calvin W. Watkins, who is in charge of the Agency's budget work.

P&SA is responsible for enforcement of the Packers and Stockyards Act of 1921, as amended. Agency programs are designed to assure the integrity of the livestock, meat, and poultry markets and the market place. This includes assuring payment, fostering fair and open competition and guarding against unfair, deceptive and other fraudulent practices in the marketing of meat animals and the products therefrom.

Simply stated, P&SA is an investigative and law enforcement agency. Its work is primarily divided into three areas: payment protection, anti-trust activities, in the broad sense, and countering unfair, deceptive and fraudulent practices, commonly known as white-collar crime. The cost of the latter obviously is borne by both the producers and consumers.

The financial problems encountered by market agencies (including auction markets), dealers, and packers continue to demand special priority on the part of the Agency. There continues to be significant financial failures by firms in each of these operational categories. Check kiting schemes have been encountered in the enforcement of the Act over the years; however, such schemes have come prominently to the forefront of late. In one such case involving an auction market in Texas and one in Oklahoma, the Agency was directly responsible for 100 percent (less attorneys' fees) being paid to consignors to the two markets.

The Subcommittee will be interested to know that in fiscal year 1985, cash sellers of livestock collected $3.9 million from 20 packers under the statutory packer trust provision of the Act; since the adoption of the trust in 1976, over $27.3 million has been paid to cash sellers.

As livestock, meat, and poultry production and marketing continue to change, Agency programs and operations are reviewed and adjusted to meet the needs of the industry in harmony with statutory authority. The effort on the part of P&SA to adjust its work priorities and enforcement programs is evidence of its sensitivity to changes in the livestock, meat, and poultry industries. Comments and recommendations from the public are always considered in making such decisions.

The enforcement of the Act and the efficiency of program activities continue to be substantially improved through automation. The Agencywide Information Management System (AIMS) is designed and is being implemented to improve efficiency in collecting, processing and analyzing information and data, including investigative data. Progress continues to be made in the implementation of the program, including the development and expansion of data bases and utilization of automated equipment in connection with investigations, especially for data and analysis purposes.

The Agency is now exploring the next step to be taken with respect to equipment and software both at headquarters and in the field offices.

SCOPE OF OPERATIONS

The production of live animals, meat and poultry is of significant importance to the economy and as a food source. The total value of red meats and poultry at wholesale continues to approximate $60 billion.

With respect to the P&SA program, specifically: Currently, there are 1,800 stockyards subject to the Act; 10,150 registrants, including 7,460 market agencies/dealers and 2,690 packer buyers; approximately 6,000 slaughtering and processing packers; and an estimated 6,500 meat distributors, brokers, and dealers. There are also approximately 250 poultry firms subject to the Act.

The programs of the Packers and Stockyards Administration are divided into two major areas: Livestock Marketing and Packer and Poultry programs. The goal of the Agency under normal circumstances is to allocate its resources on approximately a 50/50 basis between the two program divisions, the Packer and Poultry Division and the Livestock Marketing Division. Flexibility to reallocate resources between the two must be maintained, however, in order to respond to problems when they occur. As already indicated, the financial situation in the industry of late has demanded additional resources being channeled to financial and payment program activities.

LIVESTOCK MARKETING

The focus of the Livestock Marketing program is on payment protection, fraudulent schemes, false weighing, and trade practices of stockyards, market agencies, and dealers. Major emphasis is given to payment protection and investigating fraudulent marketing practices. This emphasis will be continued in work planning and allocation of the Agency's resources.

Fraudulent practices include misuse of custodial funds and other custodial account violations; check kiting; false weighing; weight and price manipulation; switching of livestock; misrepresentation as to the quality, source, origin and health of livestock; market agents defrauding principals; and altering books and records.

The Agency is endeavoring to make its payment protection work more effective by allocating additional resources to surveillance. This effort has been hampered, however, by the rash of financial failures occurring in the industry.

Another program activity given high priority in livestock marketing is to foster and maintain fair and effective competition in the industry. Any practice, agreement, or understanding which excludes a potential buyer from bidding in open competition either in direct trading or at public markets is a restraint on competition. Investigations often disclose practices which result in the lessening of competition through apportioning of territories, price agreements or arrangements not to compete, and payoffs or kickbacks to buyers.

PACKER AND POULTRY

The primary responsibilities of the Packer and Poultry Division are to ensure open and free competition in the procurement of livestock by packers, the marketing of meat and poultry, and to assure prompt payment to producers. Packer and poultry activities continue to place high priority on the effective payment protection for sellers of livestock through bonding, solvency tests, and the statutory trust. The existence of the packer trust has helped substantially in reducing losses to producers who sell livestock on a cash basis to slaughtering packers.

Dramatic changes have occurred in the meat packing industry over the last few years, including realignment of ownership, which continues as a dominant factor in the industry. These developments, along with innovations in procurement, slaughter, processing and distribution, have caused the Agency to periodically review its priorities.

MEAT MARKETING

Investigations of commercial bribery and illegal brokerage in the marketing of meat continue to receive significant attention on the part of the Agency with emphasis on the operations of meat brokers and wholesale meat distributors. Firms making payoffs to meat buyers enjoy a favored position over other suppliers who compete on the basis of services and/or quality.

In addition to payoffs to meat buyers, investigations have also revealed kickbacks to packer salesmen. Cases of this nature necessitate numerous subpoenas for individual and business bank accounts and may cover broad geographic areas. P&SA works closely with other Government agencies such as the FBI, the IRS and the Postal Inspection Service investigating such practices.

POULTRY MARKETING

The principal activity of the poultry program is to investigate grower complaints and to monitor the contractual relationship between integrators and contract growers for compliance with regulations administered by P&SA. This includes attention to timely and accurate weighing and proper accounting to growers. The Agency continues to encounter strong opposition from certain poultry processors and serious enforcement delays in carrying out its responsibility with respect to time of weighing and discrimination in ranking growers for payment purposes.

BOXED BEEF PRODUCTION

Ongoing analysis by the Agency indicates that the proportion of beef being boxed continues to increase. Also, slaughtering packers continue to increase their share of total boxed beef production. The Agency expects this trend to continue.

Boxed beef production by meat packers (slaughtering and non-slaughtering), excluding retailers, accounted for 12.9 million carcasses or about half of federally inspected slaughter of steers and heifers in 1979. Production increased to 19.7 million carcasses in 1984. This was 73 percent of the 26.9 million steers and heifers slaughtered that year. The market share of the four largest boxed beef firms, all of which are slaughtering packers, increased from about 52 percent in 1979 to 61 percent in 1984.

Retailers fabricated approximately 1.4 million steers and heifers into boxed beef for distribution to their own stores in 1984.

GRADE AND WEIGHT

Since the Agency appeared before the Subcommittee a year ago, it has made significant progress in bringing about recommended changes in the grade and yield procurement of hogs. Firms engaged in the slaughtering of hogs have cooperated well with the Agency. A carcass market report for live hogs has been established by USDA Market News Service. Packers have clarified and more completely disclosed program terms and greatly simplified accounting to the sellers.

The Agency is now involved in a comprehensive study of the procurement programs of major U. S. lamb slaughterers. Data from 14 lamb slaughtering plants have been collected and are being analyzed and evaluated. Again, the Agency will attempt to work with the industry on an informal basis to effect necessary improvements in individual firm's procurement and marketing programs.

SCALES AND WEIGHING

The major emphasis of the Agency's scales and weighing program is being directed toward weighing investigations. At present, there are three primary methods of investigating weighing practices to detect fraudulent and careless weighing. They are: (1) examination of weighing records, (2) check weighing, and (3) direct sale of pre-weighed livestock. During fiscal year 1985, the Agency conducted 280 weighing investigations, with 66 (23.6%) of these disclosing false or inaccurate weights.

FISCAL YEAR 1987 BUDGET REQUEST

The budget request of the Packers and Stockyards Administration for fiscal year 1987 is $9,093,000; a net decrease of $40,000 from the fiscal year 1986 budget. The net decrease consists of savings in management costs, primarily consisting of improved travel management and a reduction in administrative support costs.

The budget also proposes to finance the Packers and Stockyards program on a user fee basis. Proposed legislation required to implement the fee program is being submitted to the Congress.

Mr. Chairman, I thank you for the opportunity to present this statement. We welcome the opportunity to respond to any questions you and other members of the Subcommittee may wish to ask.

United States
Department of
Agriculture

Packers and
Stockyards
Administration

Packers and Stockyards Administration Fiscal Year 1987 Budget Review

Packers and Stockyards Administration:

Investigative and Law Enforcement Agency

Mission: The mission of P&SA is to assure the integrity of livestock, meat, and poultry markets and the market place

The programs of P&SA are designed to foster fair and open competition and guard against deceptive and fraudulent practices in the marketing of meat animals and the products therefrom.

Packers and Stockyards Administration

Overview

Size of Industry

• Producer receipts livestock and poultry	$47 bil

(33% of total cash farm receipts)

• Market value added through slaughter, processing and wholesaling	$13 bil
• Total value of red meats and poultry at wholesale	$60 bil

Coverage of program

• Scales	5,000
• Packers S&P (800 bonded)	6,600
• Other packers	6,500
• Poultry firms	250
• Posted stockyards	1,800
• Market agencies/dealers	7,460
• Packer buyers	2,690

Packers and Stockyards Administration

Areas of Responsibility

- Payment protection
  - Prompt payment
  - Packer trust
  - Custodial accounts
  - Bonds
  - Solvency
- Anti-trust activities
  - Competition
  - Conflicts of interest
- Unfair, deceptive, and fraudulent practices
  White-collar crime

Packers and Stockyards Administration

FY 1987 Request - $9.1 Million

Agency Objectives:

- Programs involving payment protection, bonding, packer trust, and custodial account surveillance maintained
- Major investigations involving white collar crime/fraud, unfair competition and deceptive practices continued
- Coordination with and assistance to other federal law enforcement agencies provided
- Programs to assure accurate scales and weighing maintained

QUESTIONS SUBMITTED BY SENATOR COCHRAN

BUDGET REQUESTS

Question: In your statement, you say that the $40,000 reduction from the 1986 level "consists of savings in management costs, primarily consisting of improved travel management and a reduction in administrative support costs." Yet, the explanatory notes show that every area of administrative costs, including travel, is increasing and that the only area of reduction is personnel compensation and benefits. Please explain this contradiction.

Answer: Improved travel management is expected to absorb much of what otherwise would be necessary to offset increases in travel costs. The estimated increase of only $4,000 from 1986 to 1987 in travel would have been much higher, except for the savings expected through improved travel management. The savings estimated in administrative support costs refers to an estimated savings from the consolidation of administrative support services with other agencies under the Assistant Secretary for Marketing and Inspection Services.

Question: Your personnel compensation and benefits will decrease, but your staff-years will not. All pay grades are shown as having the same number of people next year as this year. Please explain how this is possible.

Answer: It is possible for salaries and benefits to decrease while staff-years remain the same since pay levels in a particular grade vary with the incumbent in the position. For example, retiring personnel are gererally at a higher pay level of a particular grade than new employees hired to replace those leaving. This, combined with the Relocation Income Tax claim allowances required to be paid in 1986, results in a decrease in personnel compensation and benefits in 1987 from 1986.

Question: How much, in addition to your budget request, will be needed in 1987 to fund your responsibilities for the "clear title" provision of the farm bill?

Answer: Additional funding needs is estimated to be $125,000 for "clear title" in fiscal year 1987.

FARM CREDIT ADMINISTRATION

STATEMENT OF KENNETH J. AUBERGER, ACTING CHAIRMAN

Mr. Chairman, implementing the provisions of the Farm Credit Amendments Act (Act) has been the Farm Credit Administration's (FCA's) highest priority since the Act's passage in December 1985. In that legislation, Congress completes the evolution of FCA into its proper role as regulator of the Farm Credit System (System). It gives the FCA enforcement powers that provide a basis to correct unsafe and unsound System banking practices (lessens the degree of System self-regulation that was implicit in the Federal Farm Credit Board) and reassigns direct credit examination of associations to FCA.

The Act also strengthens the System in two ways. First, it creates self-help opportunity for the System through establishment of the Farm Credit System Capital Corporation (Capital Corporation). This Capital Corporation will purchase troubled assets of the System and develop workout plans for them. It will also manage a process of self-help financial assistance among institutions by transferring surplus to those districts in greatest need of capital. Second, the new law gives a carefully restricted Federal "backstop" to the System, and this has restored the System's longer term ability to fund itself in the capital markets.

To understand the environment in which these new relationships and self-help efforts are taking place, my statement will (1) summarize the agricultural outlook for 1986, and (2) review the year-end financial condition and performance of the System. Then, I will highlight FCA actions to implement the Act. Submitted for the record is the FCA's operating budget for FY 1987.

Agricultural Outlook for 1986

In 1985, farmers loan repayment problems created a dramatic increase in farm-business failures, a retrenchment in agricultural lending, and stress among agricultural lending institutions. The prospects for 1986 do not suggest that a turnaround is imminent. Cash-flows for highly leveraged operators will remain tight and further drops in asset values will erode collateral values. Thus, lending institutions will likely see another increase in nonperforming assets, further loan losses, erosion of loss reserves, and depressed earnings. Both farm borrowers and financial institutions themselves will increasingly have to take action to avoid further deterioration of already weakened financial conditions.

Bumper crops, falling exports, low commodity prices, and sliding land values in 1985 have increased the amount of stressed debt in the agricultural sector from the $50 billion projected at the beginning of last year. The adjustment problem is concentrated on perhaps one-third or fewer of the Nation's 2.4 million farms. The two-thirds with no or manageable amounts of debt are affected indirectly by a reduced ability of their communities to finance local services and by a decline in their financial position. Many of them will face favorable opportunities for buying or renting additional land or equipment.

The overall balance sheet of the farming sector again shows significant deterioration. This is influenced by the dominating effect of real estate assets on the totals. Since peaking in 1981, land values by early 1985 had declined by almost 50 percent in Iowa and Nebraska and approximately 40 percent in Ohio, Illinois, Indiana, Minnesota, and Missouri. For 1985, USDA data and Federal Reserve Bank surveys establish that additional drops in land values of 5 to 11 percent nationwide are likely to have occurred, with larger drops again concentrated in the Corn Belt, Northern Plains, and

Great Lakes States. In the West, ranchland values recorded the largest declines and nonirrigated lands the second largest declines.

In 1986, a downward revision of long-term income expectations and continued high real cost of debt are forcing land values down to levels that will allow competitive returns. In some areas, economics suggest land values should stabilize. However, a negative factor to contend with is the huge supply of land on the market or awaiting a sales opportunity. On balance, negative forces are likely to dominate through 1986.

It is not clear what the effect of the 1985 Farm Bill will be in altering income expectations and how much the recent drop in oil prices will affect land prices in different parts of the country. We anticipate only modest short-run improvement in export volumes as a result of more competitive U.S. crop prices. Interest rates are still high in real terms, with adverse effects on credit-servicing capacity, as well as on capitalized value of land itself.

Nevertheless, given the moderately supportive farm support program, the overall rate of decline in land values may slow to around 3 to 5 percent in 1986. Farm revenues and production costs are expected to be lower, producing a stable to slightly lower net farm income. Returns on agricultural assets are likely to move upward to about 3 to 4 percent, but stagnating cash-flows will not enable farmers to make large paydowns of liabilities.

Percent Change in Farm Sector Balance Sheet, 1984 to 1986

Item	1984_p	1985_f	1986_f
Assets	-10%	-5.9%	-4%
Debt	-1.4	-1.4	-1
Equity	-12.5	-7.2	-5

p Preliminary
f Forecast

During 1985, total farm debt fell slightly. Reduction of real estate debt through paydowns and writeoffs by lenders was perhaps $5 to $7 billion. At the same time, nonreal estate debt grew because of heavy reliance on the CCC loan programs. The large 1985 feed-grain production enabled some Corn Belt farmers enrolled in the commodity programs to pay down some of their debt. The rest of the 1985 decline represented writedowns of loan losses by lenders. Total net worth in the agricultural sector at the end of 1985 was approximately $600 billion (excluding farm households). A similar course of action is expected this year, but with a more moderate reduction in total farm debt. The asset declines seen for 1986 will be greater than the drop in debt; thus, farm equity will be reduced once more.

Despite some serious deterioration over the past several years, the aggregate balance sheet of the agricultural sector is still fairly healthy. However, this aggregate combines balance sheets of both operators and landlords. Generally, landlords are believed to be in sounder financial condition than operators because the landlord debt is less concentrated and less dependent on farm earnings for repayment.

USDA surveys document the concentration of farm debt in the hands of large operators. Among commercial-sized operations with annual farm sales over $40,000, some 634,000 operators held $99.1 billion in farm debt and $372 billion in assets at the beginning of 1985. Of these, just under 200,000 with $63.3 billion of debt had debt-to-asset ratios over 40 percent. Despite their debt load, 70,000 of these managed to have a positive cash-flow. Thus, 130,000 commercial-sized operators with 40 percent or more debt-to-asset ratios had a negative cash-flow. The farmers in this category owed $46.5 billion and had $65.3 billion in assets; clearly, these operators are in serious financial difficulty. They represented 20 percent of commercial farm operators and held 47 percent of the debt and 19 percent of the assets. During 1985, those who participated in the farm programs and had high yields probably maintained strong cash-flows. Those who did not experienced reduced cash-flows and increasing debt load.

Effect on Agricultural Lenders

As of January 1985, the proportion of agricultural loans associated with highly stressed borrowers was about the same for production credit associations (PCAs) as it was for commercial banks. In addition, preliminary data for 1985 show that PCA chargeoffs were similar to commercial bank chargeoffs as well. However, the System had a larger average outstanding loan per borrower than did commercial banks. This difference traces directly to loan activity to part-time farmers.

Commercial banks served almost twice as many operators having sales below $40,000 than did System institutions. Were it not for the higher proportion of loans to smaller operators who tend to be in better financial condition, the farm loan portfolio of commercial banks would have been in somewhat worse shape than that of the System. For example, for agricultural operators having $250,000 or more in sales, about 70 percent of commercial bank loans are to borrowers with debt-to-asset ratios over 40 percent, while the corresponding figure for System institutions is 57 percent.

Condition and Performance of the System

Deterioration of the agricultural economy since 1981 has led to severe financial stress on farmers and agricultural lenders. The levels of actual and projected losses of the System reached the point last year of jeopardizing investor and borrower confidence in the System's safety and soundness. As the System's financial problems became known, interest rates on System securities ballooned to over 100 basis points over equivalent Treasury securities. More importantly, investors showed a strong preference for short-term System securities.

Last fall, FCA recommended a three-point program for dealing with the financial problems of the System: (1) pool the System's own resources; (2) enhance FCA's examination and enforcement authorities; and (3) establish a "backstop" to the System to ensure its ability to fund itself in the capital markets.

Swift action by Congress and the Administration resulted in enactment of the Farm Credit Amendments Act, which restored investor confidence in System securities. Interest spreads over comparable Treasury bonds dropped approximately 50 basis points within 3 weeks of passage.

System loan losses continued to mount during 1985, as the amount of land price drops could no longer be absorbed within borrowers' equity positions. With this cushion gone, further losses were transmitted directly into lender accounts. Large provisions for loan losses, required to reflect System institutions' risk exposure, resulted in net operating losses for all of 1985, totaling $2.689 billion on a combined basis.

Very large operating losses reported in the fourth quarter reflected both the increasing rate of loss and catchup on deterioration that occurred in previous quarters. The precipitous drop in land values and reduced repayment capacity during 1984 and 1985, however, accounts for the bulk of the devaluation of the loan portfolio. The devaluation must be made as soon as losses can be estimated, often well before actual chargeoff occurs. Thus, the allowance for losses account is in place to handle future chargeoffs.

The System's total loan portfolio continued to contract at record rates in 1985. As of December 31, 1985, total System outstanding loans were $69.8 billion on a combined basis, compared to $79.8 billion on December 31, 1984. The peak level of $81.9 billion was reached on December 31, 1983. Leading the decline were the PCAs and the Federal land banks (FLBs), as both lenders witnessed continued stress and declining volume.

Retrenchment in the size of the System's loan portfolio reflects the desire of many producers to paydown their total debt in an attempt to improve their equity positions, and is therefore a phenomenon being experienced by most commercial agricultural lenders. However, the System's loan volume is shrinking at a faster rate because of increased interest rate competition from some commercial banks, large increases in Farmers Home Administration operating lending, and favorable CCC interest rates. The paydown situation also slows the rate at which new lower cost money is blended into System funding costs, lengthening the lag between drops in current bond rates and drops in rates to System borrowers.

In addition, the System continues to exhibit stress in other dimensions of its financial performance. Loan chargeoffs in 1985 were $1.043 billion on a combined basis, more than double the $428.1 million reported for all of 1984.

The System had a combined total of nearly $9.4 billion in nonperforming loans as of December 31, 1985, of which $5.3 billion was in a nonaccrual status. Financial reports suggest future loan losses aggregating $3.2 billion or more are inherent in the System's loan portfolio. As a result, the banks have been reserving earnings for loan losses in accordance with Generally Accepted Accounting Principles (GAAP).

Federal Land Banks

Within the System, the FLBs experienced a rapid decline in loans in the past 2 years. In 1985, total loans outstanding dropped. As of year-end 1985, outstanding loan levels were $47.5 billion, $4.9 billion (9.3 percent) below 1984 yearend levels, with 11 of the 12 districts reporting declines in outstanding loans.

Nonperforming FLB loans totaled $7.4 billion on December 31, and the potential for significant future losses had a severely detrimental effect on their financial performance. In 1985, the FLBs experienced net operating losses of $2.077 billion after provisions for losses totaling $2.074 billion. Net chargeoffs by the FLBs totaled $460.3 million, compared to $90.4 million for all of 1984.

Federal Intermediate Credit Banks

Federal intermediate credit bank (FICB) performance is directly affected by the performance of the PCAs. As the PCA loan volume rapidly declined in 1985, the FICBs experienced a similar decline in lending activity. FICB loans to PCAs declined 19.6 percent to $12.9 billion on December 31, down from $16.1 billion on December 31, 1984. FICB lending to other financing institutions dropped 38.7 percent to $536.9 million on December 31.

FICBs reported a net operating loss of $89.3 million for 1985. Of the $5.063 billion of nonperforming loans, $193.1 million was in a nonaccrual status. FICBs reported loan losses of $38.6 million during 1985 and combined allowances for loan losses were $144.9 million at yearend.

Production Credit Associations

PCA loan volume declined substantially in 1985, contracting $3.973 billion to $14.41 billion, a 21.6-percent decline. Loan chargeoffs during this time accounted for about 12 percent of the $3.973-billion reduction. Net PCA chargeoffs were $479.6 million, compared to $285.9 million for calendar year 1984.

PCAs reported $2.315 billion in loans in a nonperforming status of which $943 million was in a nonaccrual status. The PCAs reported net operating losses of $678.3 million for 1985 after making provisions for loan losses totaling $774.6 million.

The probability of continued losses and declining loan volume for the PCAs remains high in 1986.

Banks for Cooperatives

Banks for cooperatives (BCs) also had a significant drop in loan volume for 1985. Volume dropped 10.1 percent to $8.1 billion at yearend from $9.0 billion on December 31, 1984. Nevertheless, BCs remained in relatively sound financial health in 1985. Net earnings of $66.3 million were posted and chargeoffs were only $13.8 million. Provisions for losses were $24.4 million. Nonperforming BC loans were $469.4 million or 5.8 percent of loans outstanding at December 31. As of yearend 1985, $131.1 million of the BC loan portfolio was in a nonaccrual status.

The sharp decline in System loan volume plus adverse publicity on the financial health of the System contributed to a $3.1-billion paydown of total System debt in 1985. For the third consecutive year, a larger volume of System bonds matured than were issued in new obligations resulting in the level of outstanding bonds to contract by $9.0 billion by December 31, 1985.

Financial market concern over the future of the System and its securities caused the cancellation of three 9-month pricings and two term pricings in the latter part of 1985. As a result, the System was faced with a shorter maturity of its bond portfolio and was relying heavily on the discount note market as a source of funding. By mid-December 1985, discount notes outstanding totaled $10.8 billion, more than double the $5.2 billion outstanding at the beginning of 1985.

Subsequent to the passage of the Act, System discount note levels stabilized at around $10.5 to $10.8 billion and a continuing paydown of System securities has resulted in much greater liquidity.

Despite the increased spreads over comparable Treasury securities during the latter months of 1985, the average cost of the FLB bond portfolio declined 45 basis points. Term bonds with an average interest rate of 12.3 percent were retired in the amount of $7.8 billion and were replaced with lower priced short-term bonds and discount notes. The average maturity of the FLB securities slipped from 3.3 years at the beginning of the year to 2.9 years in December 1985. The FLBs could have an opportunity to further lower their average cost of funds in 1986 as another $8.9 billion in term bonds mature with a weighted average cost of 12.7[illegible] percent.

The FICBs had the greatest reduction in funding costs of the System banks, with portfolio costs decreasing 166 basis points to 9.5 percent. Bonds outstanding decreased from $16.0 billion to $10.9 billion, but discount notes outstanding increased by $2.5 billion. The average maturity of FICB bonds remained constant at 1.07 years.

The BCs paid down their short-term debt at a much faster rate than their term holdings and, as a result, increased the average maturity of their portfolio from 2.1 years to 2.4 years. Average bond costs declined more slowly than for the FICBs, from 11.3 percent to 10.5 percent.

FCA Actions to Implement the Act

FCA was mandated under the Farm Credit Amendments Act of 1985 to take a more regulatory approach using added enforcement powers; to assume responsibility for direct examination of associations as well as banks; to charter a capital corporation with responsibility to work out nonperforming assets and manage use of System self-help resources; to ensure greater consideration of borrower and stockholder rights; and to focus on stabilizing the entire System in order to minimize the possibility of triggering a request for Federal financial assistance.

FCA is rapidly implementing the Amendments. In addition, FCA is updating and continuing activities underway to change prior approval requirements and is considering general revisions to its regulatory approach and the structure of its Regulations. FCA is extremely concerned, however, about the effect of Gramm-Rudman-Hollings on its ability to perform its role as a financial regulator.

Highest priority is being given to implementing the self-help and borrower rights provisions and implementing the new FCA enforcement authorities. These provisions directly affect institutions and individuals as borrowers or stockholders.

Shortly after enactment, FCA recognized the potential for some System institutions to dissipate financial resources before self-help provisions become effective. Therefore, on February 14, FCA invoked its new authorities and directed all System institutions to conserve their financial resources so they would be able to marshal those resources to help manage their current financial difficulty.

This directive is a temporary measure until the Act is fully implemented. It prohibits System institutions from taking a number of actions including:

(1) extraordinary operating and capital expenditures within the control of management or boards of directors in excess of $250,000;

(2) major changes that increase the cost of employee benefit and pension plans or major changes in depreciation procedures;

(3) repurchase of unmatured debt instruments;

(4) payment of an interest rate on member funds held by a district bank in an amount that exceeds the member's loan rate; and

(5) charging an interest rate by any PCA that is less than it is paying for money from the FICB.

On the same date, FCA directed all System institutions to follow the intent of the law pertaining to the rights of applicants and announced new regulations dealing with financial disclosure.

The law clearly describes the information to which borrowers are entitled. It is equally clear with regard to actions on loan applications. FCA notified all System institutions that it expected them to abide by these legal requirements even before implementing regulations are final.

It has long been the objective of FCA to require full financial disclosure by System institutions. Final regulations in this area ensure that stockholders and investors receive the financial and operational data needed to make informed decisions. Certified financial audits by public accountants, as well as disclosure of significant actions and activities that materially affect the business operations of System institutions are required.

By mid-April, virtually all necessary regulations regarding borrower rights, FCA enforcement authorities, self-help, and operations of the Capital Corporation were issued in either final or proposed form.

Specifically, FCA has taken the following actions:

(1) Issued a Federal charter establishing a new Capital Corporation (February 24);

(2) Established election procedures to expedite selection of System representatives on the Capital Corporation's board (March 10);

(3) Established the basic powers of the Capital Corporation, provided for its initial capitalization, subjected it to the same accounting and financial reporting required of other System institutions, and set standards and procedures under which System institutions may be eligible for financial assistance (March 10);

(4) In the near future, FCA will submit proposed regulations to the House and Senate Agriculture Committees to establish requirements for System institutions to purchase stock or pay assessments to the Capital Corporation and set forth capital adequacy requirements of banks and associations;

(5) Submitted proposed regulations to the House and Senate Agriculture Committees to establish requirements for independently audited financial statements and financial disclosure in accordance with GAAP (published as final regulations on March 13);

(6) Submitted proposed regulations to the House and Senate Agriculture Committees requiring forbearance policies for System institutions, and borrower access to documents, reconsideration and review of loan applications, and notice prior to System institutions applying their outstanding stock against balances of loans in default (March 17);

(7) Submitted proposed regulations to the House and Senate Agriculture Committees regarding FCA's enforcement authorities, liquidations, and conservatorships (March 17);

(8) Announced FCA's two appointees to the board of the Capital Corporation and called the first meeting of this board for April 11 (April 10).

To meet FCA's additional examination and regulatory responsibilities, a supplemental appropriation was included in the continuing resolution (H.J. Res. 465, P.L. 99-198) providing for additional FCA examiners and other resources. To effectively examine all associations, regional offices must be established and 274 additional examiners must be hired and trained over a 2-year transition period.

FCA receives no appropriated funds, but rather assesses the institutions of the System for its operating expenses subject to limits set by Congress in appropriations acts. Provisions of the Farm Credit Act of 1971, as amended, require that any unspent funds be rebated to the System in the form of reduced assessment for the coming year.

Mr. Chairman, in summary, 1986 will be another very difficult year for many American farmers. There are 130,000 sizable farm operations with debt-to-asset ratios over 40 percent and negative cash-flows. The $46.5 billion owed by these farmers is creating severe stress. The result will be continued large loan losses for the System, which is a major source of credit to these farmers, and continued increases in reserves for losses resulting in large negative net earnings. Thus, there will be continued pressure to keep interest rates up on performing loans. Despite this, the System will use more of its financial resources to meet loan losses during 1986, while at the same time experiencing reduced loan volume. System institutions and many of the farmers they serve are caught in an economic vice. The adjustment and restructuring in agriculture are inevitable, and FCA is seeking to ensure that the System's resources are used wisely, thus enabling the System to survive as a reliable source of credit for American agriculture.

The FCA is making every effort to regulate and examine the System effectively and is moving aggressively to implement the Farm Credit Amendments Act. We are carrying out stronger, more direct examination, and at the same time we are expecting the System to have full responsibility and accountability for the management of its operations. The intent of the Act and of the FCA is to ensure that adequate credit will continue to be available to creditworthy farmers, ranchers, producers and harvesters of aquatic products, and agricultural cooperatives.

Mr. Chairman, that concludes my prepared statement. I would be happy to answer any questions the committee may have.

APPENDIX

Farm Credit Administration Budget

PURPOSE STATEMENT

The Farm Credit Administration is the independent Federal Agency responsible for the regulation, supervision, and examination of the borrower-owned banks and associations that comprise the cooperative Farm Credit System.

The Farm Credit Administration was established as an independent agency by Executive Order No. 6084, effective May 27, 1933. On July 1, 1939, the Farm Credit Administration was transferred to the Department of Agriculture, where it remained until the Farm Credit Act of 1953 reestablished it as an independent agency under the direction of the Federal Farm Credit Board. The statutory authorities of the agency were consolidated in the Farm Credit Act of 1971, Public Law 92-181. On December 23, 1985, that Act was substantially amended by the Farm Credit Amendments Act of 1985, Public Law 99-205, which, among other things, restructured the agency by eliminating the Federal Farm Credit Board and substituting a new three-member board designated as the Farm Credit Administration Board.

The Farm Credit Act of 1971, as amended, provides "for the farmer-owned cooperative system to make credit available to farmers and ranchers, for rural residences, and to cooperatives and other borrowers for farm-related businesses upon which farming operations are dependent, to provide for an adequate and flexible flow of money into rural areas, and to modernize and to consolidate existing farm credit law to meet current and rural credit needs."

On September 30, 1985, the Farm Credit Administration had 272 full-time permanent employees, 66 of whom were located in offices outside the Washington, DC, area. All expenses of the activities and personnel of the Farm Credit Administration are paid by assessments collected from the banks of the Farm Credit System.

ASSESSMENTS FOR OPERATING EXPENSES

Assessments based on estimated expenditures are collected from the Farm Credit System banks and are available for administrative expenses of the Farm Credit Administration. Obligations are incurred within fiscal-year budgets approved by the Farm Credit Administration Board.

CAPITAL CORPORATION INVESTMENT FUND

Section 4.0 of Public Law 99-205 directs that the Banks for Cooperatives Investment Fund and the Short Term Capital Investment Fund be merged and be available to the Farm Credit Administration for purchase on behalf of the United States of capital stock of the Farm Credit System Capital Corporation. The Farm Credit Administration may make such purchases of stock on a discretionary basis to achieve the purposes of the Act.

Administrative Expenses
$ Thousands

Approved by the Federal Farm Credit Board* and funded by assessments against earnings of the Farm Credit System banks.

	1987	1986
Budget estimate	$39,420	$30,724
Reduction pursuant to P.L. 99-177	3,154	1,321
	$36,266	$29,403
Estimated reduction rate, P.L. 99-177	8%	4.3%

Increase

The increase of $8,696 for 1987 over 1986 is primarily attributable to the addition of 149 full time permanent positions to implement the additional examination and supervisory functions authorized by Public Law 99-205.

Program
$ Thousands

	1985 actual	1986 revised estimate	1987 estimate	Change 1986 to 1987
Supervision and examination of Farm Credit banks and associations	$ 19,835	$ 30,724	$ 39,420	$ 8,696
Unobligated balance	827			
Budget total	$ 20,662	$ 30,724	$ 39,420	$ 8,696

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* The Federal Farm Credit Board has been replaced by a new three-member board, the Farm Credit Administration Board. (Public Law 99-205).

FARM CREDIT ADMINISTRATION EXPENSES

Year	FCA Expenses ($ Amount)	Percentage Increases in FCA Expenses	FCA Expenses as a Percent of Loans Outstanding	FCA Expenses as a Percent of Loans Made
1980	11,288,000	+ 7.0	.017	.017
1981	12,796,000	+13.4	.017	.017
1982	14,861,000	+16.1	.018	.022
1983	17,356,000	+16.8	.021	.027
1984	19,646,000	+13.2	.025	.030
1985	19,835,000	+01.0	.027	.029

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AGRICULTURE, FOOD, AND FARM CREDIT ACTIVE ASSIGNMENTS

Review of Commodity Credit Corporation's methods for shipping Grain on Government Railroads

Extent of farm program payments to non-resident aliens

Analysis of Commodity Price Support Program direct payment recipients

USDA's Emergency Feed Program

Review of farm reconstitutions and maximum payment limitations

Review of USDA's design and implementation of the 1986 Wheat Poll

Review of new producers resulting from voluntary farm reorganizations and estimated crop program payments to new producers in fiscal years 1987-89

Evaluation of food stamp denial and termination error rates

Evaluation of categorial eligibility and simplified benefit determinations for the Food Stamp Program

Evaluation of alternatives to commodity donation in the School Lunch Program

Impact of implementing an income-means test in USDA's Child Care Food Program

An assessment of the effectiveness of FmHA's Emergency Disaster Loan Program

Information requested concerning the status of FmHA loans made to Indians in Montana, North and South Dakota

Assessment of FmHA's loan making policies and eligibility criteria

Determining the adequacy of information used by FCIC management as a basis for making decisions affecting the financial well-being of the agency

Survey of FCIC's reinsured companies' loss adjustment procedures

Conflict of interest inquiry on a board member of the FCIC

Anaysis of federal and state actions impacting the flow of credit to agriculture

Information on the distribution of farm program payments and nonrecourse loans and the projected impacts of various policy options

Advantages and disadvantages of a secondary market for agricultural loans

Questions concerning the reliability of USDA farm income measures

Analysis of Federal milk marketing order regulations

Long and short term prospects for increasing U.S. agriculture exports

Examination of labeling and sanitation standards for importation of agricultural commodities

Analysis of world agricultural production

Official U.S. grain standards: Have changes been made to them when necessary

Implications of increased U.S. agricultural imports

Investigation of the Cattle Futures Market

Declining competitiveness in U.S. farm products

Analysis of world agricultural demand

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Survey of FDA's System for Responding to Congressional Committee Document Requests

Survey of FDA's Plan for Consolidating its Field Laboratory Operations

Survey of the Bioresearch Monitoring Activities of FDA's Division of Scientific Investigations

Survey of Individuals Who Have Failed State Medical Licensing Examinations

Survey of FDA's Capability to Conduct Criminal Investigations

Review of FDA's Delay in Approving a License for Marketing a Polio Vaccine Containing Inactive Virus

LISTING OF ACTIVE JOBS INVOLVING THE CFTC

TITLE

Review of the Commodity Futures Trading Commission's Oversight of Futures Self-Regulatory Organizations (Off-Exchange Fraud)

Survey of the CFTC's Oversight of Futures Industry Self-Regulatory Organizations (Exchange Operations)

Survey of the Internationalization of Capital Markets

CFTC Regulation of Leverage Contracts

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